FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

No. 29,728 — Monday September 16 1985 — D 8523 B

Contradictions in apartheid S. Africa, Page 17

World news | Business summary

Swedish Social Democrats set to win

Sweden's Social Democratic Government appeared set last night to hold onto power in yesterday's general election but with a slightly reduced majority, according to early computer forecasts.

The Social Democrats, who have ruled Sweden for 47 of the last 53 years, were expected to become dependent on the small Communist Party for a majority over the three-party Centre-Right opposition.

The main winner in yesterday's election was the Liberal Party which would more than double its seats in the Riksdag, the Swedish parliament.

Sri Lanka warning

Sri Lankan President Jayewardene said the government may be forced to restrict press freedom because of rising ethnic unrest.

UN hearing

The United Nations begins three days of public hearings today on the role of multinational companies in sustaining the South African economy. Page 2

Honduran alert

Honduran armed forces were placed on a state of alert and 2,000 troops moved to the southern frontier following a serious border incident with Nicaragua. Page 2

U.S. observer held

A U.S. military observer in East Germany was bumped in his truck deliberately and held at gunpoint by Soviet soldiers for nine hours, said U.S. Defence Secretary Caspar Weinberger.

Kaunda selected

President Kennth Kaunda of Zambia was selected as chairman of the so-called Front Line States, the six black-ruled Southern African countries. He takes over from Julius Nyerere who retires next month as president of Tanzania.

Cairo talks

President Hosni Mubarak of Egypt and King Hussein of Jordan held talks in Cairo in an effort to breathe life into the stalled Middle East process. Page 2

China changes

A special conference of the Chinese Communist Party is expected this week to bring significant changes in the leadership. Page 2

Separatist pledge

Separatist militants in New Caledonia ended a two-day congress with a pledge not to boycott controversial local elections later this month.

Alfonsin urges talks

President Raul Alfonsin of Argentina, visiting Belgrade, called on Britain to start negotiating with Argentina in search of a peaceful settlement to the Falklands dispute.

Chinese kidnapped

Four Chinese geologists working on a coal project in the Pakistan province of Baluchistan have been kidnapped by armed men.

Bid to halt spy book

Britain has begun legal action in Australia to prevent publication of a book on intelligence matters by former British agent Peter Wright who claimed last year that Sir Roger Hollis, the former chief of M15, the counter-intelligence service, was a Soviet spy.

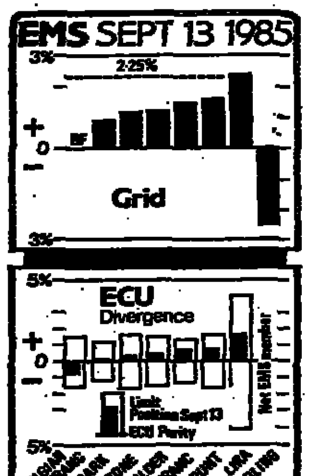
Senna wins at Spa

Brazilian Ayrton Senna (Lotus) won the Belgian motor grand prix at Spa. France's McLaren driver Alain Prost was third, and now leads Michele Alboreto (Italy, Ferrari), who did not finish, 69-53 in the drivers' championship.

Producers may seek supply cut in coffee

LEADING international coffee producers appear determined to press for a reduction in supplies at a meeting in London today to bolster what they say are depressed world prices. The meeting will be held under the auspices of the International Coffee Organisation. Page 18

EUROPEAN Monetary System: Most currencies showed little overall change last week, awaiting a reaction by the U.S. dollar to several important U.S. economic statistics released on Friday. The Belgian franc continued to improve although it retreated from the week's highs as the D-Mark recovered against the dollar. The Belgian unit was comfortably placed within its divergence limit, however, and the absence of any pressure allowed the authorities to make a small reduction in some domestic interest rates.



The chart shows the two constraints on European Monetary System exchange rates. The upper grid, based on the weakest currency in the system, defines the cross rates from which no currency (except the lira) may move more than 2¼ per cent. The lower chart gives each currency's divergence from its "central rate" against the European Currency Unit (ECU), itself a basket of European currencies.

BRITAIN'S industrial performance shows little improvement relative to its main trading partners although there are signs of greater competitiveness in some areas, according to a report by the National Economic Development Office. Page 8

JOHANNESBURG Stock Exchange agreed to suspend the listing of Kirsch Trading Group, Metro Corporation and Kimet, the holding company for Kirsch trading pending an announcement from the Sanlam Insurance group about its proposed takeover of Kimet. Page 22

INTERNATIONAL Monetary Fund granted Morocco a $318m stand-by loan, clearing the way for foreign debt rescheduling talks with Western creditors.

SINGAPORE is to set up a second securities market by mid-1986 for small companies which do not qualify for listing on the main board of the stock exchange. Page 22

PHILIPPINES' economy contracted 4.6 per cent in the first half of 1985 due mainly to a continuing slide in industrial production.

GENERAL DYNAMICS, the biggest U.S. defence contractor, has launched $501m or $30 a share agreed cash tender offer for Cessna Aircraft, the world's largest manufacturer of light aircraft and business jets.

PIERRE MOUSSA, the French investment banker who resigned as chairman of Paribas in a row with the Socialist Government in 1981, is playing a key role in a plan to bring back international shareholders to Rhône Poulenc, the nationalised chemicals company. He will be helping to place abroad up to 25 per cent of the company's FFr 1bn ($111m) issue of certificates d'investissment. Page 19

POLAROID, the U.S. instant photography group, has won the first stage of a nine year battle over the launch of a similar product by Kodak, the dominant U.S. camera company. Page 22

IMF criticised for 'short-term' policies in Latin America

BY PETER MONTAGNON, EUROMARKETS CORRESPONDENT, IN LONDON

DEBT-RIDDEN *countries in Latin America have "valid reasons to resist" the economic policies prescribed by the International Monetary Fund as part of a cure for their problems, according to a report published today by the Inter-American Development Bank (IADB).*

Its annual study of Economic and Social Progress in Latin America warns that measures taken by the IMF to deal with the crisis so far have been short-term palliatives. They have exacerbated inflationary *pressures and undermined long-*term growth prospects.

"No one is fooled. All that happens is an inadequate combination of continuing price increases and *excess capacity, and expectations* that stabilisation cannot be continued," says an article specially written for the report by Dr Albert Fishlow, Professor of Economics at the *University of California.*

Dr Fishlow warns that Latin America faces a burden of debt service payments double the level of the post First World War reparations *that West Germany found intolerable.*

"There is little enthusiasm for an indefinite continuation of the pres*ent resource transfers from the region even under conditions of world* trade growth that might make the export surpluses feasible. There are valid reasons to resist," he says.

Although the report says the views expressed are not necessarily those of the IADB, senior staff of the bank have made little secret privately *of their sympathy with Dr Fishlow's critical approach.* The Washington based IADB channels regional development loans to Latin America.

Publication of such a detailed and authoritative academic criticism of its policy on economic adjustment is particularly embarrassing for the IMF in the run-up to its annual meeting in Seoul next month.

Officials fear it will lend academic respectability to the growing view of officials in Brazil and other countries that the IMF does not know how to deal with their problems. This is expected to be one of the themes at the Seoul meeting.

Last month Sr Jesus Silva Herzog, Mexico's Finance Minister, warned *that Latin America was still* in the grip of a "systemic" debt problem which could cause debtor countries to withhold interest pay*ments if they had insufficient* access to fresh capital flows.

Brazil and the IMF are locked in debate over the degree of economic austerity President Sarney should *impose to curb inflation and restore* his country's credit worthiness.

At the heart of the IADB's criticism of IMF policy is the stress it lays on sharply restrictive monetary and fiscal action designed to generate trade surpluses and resources to service foreign debts.

This approach deprives debtors of the chance to lay adequate foun*dations for the kind of long-term* growth which they would need to service their debts in future, it says.

Three years of economic adjustment in Latin America have left the region *starved of private sector investment* as meagre savings have been diverted to interest payments. Inflationary pressures have increased and living standards have *fallen.*

A more pragmatic approach is needed which does not rely as heavily on the fashionable concept of monetary restraint but involves *more efficient and productive economic management* by governments, the report says.

Editorial comment, Page 16

Saudis agree to £1bn UK aircraft deal

BY BRIDGET BLOOM, DEFENCE CORRESPONDENT, IN LONDON

SAUDI ARABIA has agreed in principle to buy more than £1bn ($1.3bn) worth of UK military air*craft – 48 Panavia Tornado jets* and 30 Hawk trainer and light combat aircraft, in a jets-for-oil deal which has been in negotiation for several months.

The overall value of the deal is likely eventually to be much higher than £1bn, since it is expected to in*clude a major equipment and* spares package with in-service sup*port for the aircraft spread over a* number of years. The ultimate value could therefore be in the region of £3bn.

The agreement, which is still sub*ject to detailed contract negotia*tions, including the amount of oil involved, is likely to be initialled in London later this week, between the Ministry of Defence and the *Saudi Arabian Defence Minister,* Prince Sultan.

The Tornado aircraft will be built by the tripartite Panavia consortium, which comprises British *Aerospace, Messerschmitt-Bölkow-*Blohm of West Germany and Aeritalia of Italy. The UK negotiates Tornado export deals on behalf of the entire consortium. The Hawk *aircraft will be built by British* Aerospace at its Dunsfold, Surrey, factory.

The deal will have been won in the teeth of fierce competition from France and the U.S. and will provide a welcome boost to Britain's flagging arms exports.

Britain had thought last August that a smaller deal – involving up to 20 Tornados and a similar number of Hawks – had been agreed with Riyadh, only to find that it appeared to be off following the intervention of President François Mitterrand, who offered an enhanced version of the Mirage 2000. France and Britain compete for third place in the world arms exporting league.

*Britain had hoped for arms ex*ports last year of £2.4bn but notched up less than £2bn. The Saudi deal should now put Britain into the lead.

It could also deal a blow to the French military aerospace industry, which is already smarting somewhat from last month's decision by the three Tornado partners to go ahead with a new generation agile fighter without France.

The Saudi deal is of major importance for the three Tornado partner industries. The last of the 809 Tornado aircraft ordered by the three governments comes off the production lines in 1989. If the Saudi Arabia contract is confirmed at 48 aircraft it would be just over the annual production rate of Britain and West Germany.

Tornado is assembled by British Aerospace, MBB and Aeritalia from parts made in each of the three countries. Britain makes the cockpit and rear fuselage, Italy the wings and Germany the centre fuselage. Currently Britain and West Germany are making 44 aircraft a year and Italy 20.

It is not yet clear whether the aircraft for Saudi Arabia – which are to be the strike not the air defence version – will be ordered in a single batch or not.

The Saudi deal, plus any additional European orders, will keep the Tornado line running for some further time, securing employment at both British Aerospace's Warton, Lancashire, factory and at the factories of the many equipment companies involved in the UK and in Europe.

The deal was won by the UK Ministry of Defence through its defence sales department, which is now run by Mr Colin Chandler, *the former* marketing director of the aircraft group of British Aerospace. A team from British Aerospace has been closely involved in the negotiations.

The larger than expected *order* apparently relates to refusal of the U.S. Administration, faced with Congressional opposition, to sell Saudi Arabia the McDonnell Doug*las F15 fighters. The E15s* would have been stationed in the north of the country, an intention which was seen by Israel as hostile.

Walter Ellis writes from Tel Aviv: Israel yesterday denounced the sale of Tornado and Hawk aircraft to Saudi Arabia and UK plans to supply new arms to Jordan as an escalation by Britain of the arms race in the Middle East, "to a level that undermines the stability of the region."

Israel has been concerned about the build up of Saudi Arabia's air capability for several years. It opposed the sale of U.S. F15 fighters to the Saudis in 1981 and the intensity of Israel's opposition to the proposed supply of West German Leopard II tanks to Saudi Arabia has been such that the deal has yet to be confirmed.

Peter Bruce adds from Bonn: The governing conservative coalition in West Germany, where the Tornado fuselage is produced, is likely to turn its back on Israeli and local opposition should the sale go through.

In a deliberate change of policy in August last year, Bonn revoked parts of the original Tornado agreement which would have restricted sales of the aircraft to Nato countries.

Oil may meet half cost of package

By Dominic Lawson in London

SAUDI ARABIA is expected to pay in crude oil for about half the value of the contract to buy Tornado and Hawk aircraft from the UK.

This marks a further breach by Saudi Arabia of guidelines on oil pricing laid down by the Organisation of Petroleum Exporting Countries. Earlier this year Opec's Ministerial Executive Council, which is chaired by Sheikh Yamani, the Saudi oil minister, said that Opec members should phase out oil barter deals because they played havoc with Opec's pricing structure.

A year ago Saudi Arabia caused turmoil on the oil markets when it exchanged 35m barrels of crude oil for 10 Boeing 747 aircraft. A senior oil industry executive said yesterday, "The barter deal with the UK will damage the oil market, as the Boeing deal did, by pouring more oil into a glutted market."

The Boeing deal involved up front payment in crude oil over a period of only three months. The present deal is likely to be less immediately disruptive, because the initial down payment – of at least 10 per cent of the value of the contracts – will be through letters of credit, and not oil.

Oil will be handed over as and when the aircraft are delivered. This process is likely to start in 1987. The initial agreement is government to government, but afterwards a back to back deal will be signed between British Aerospace and the Saudi Defence Ministry.

British Aerospace could then come into ownership of as much as 75m barrels of oil over the period that the aircraft are supplied. This *would be equivalent to the total re*serves of a North Sea oilfield.

British Aerospace, in which the Government sold its remaining shares in May, has a countertrade department, but it has no previous experience of disposing of oil. A number of British banks have been in discussion with British Aerospace and the two governments in an effort to devise a workable formula for exchanging the oil and aircraft.

Although the British Government would much rather have sold the aircraft in a way which could not damage the oil market, the UK's failure to win the Bosporus bridge contract has underlined the need to use innovative financing to win hard-fought international orders.

For Saudi Arabia the method of payment will help in its new drive to step up oil production from very low levels, at the expense of OPEC's much-abused price structure. The kingdom will on October 1 start to sell about 850,000 barrels a day of crude oil at market related prices to three U.S. oil companies.

France endorses tough stance on Pacific tests

BY DAVID MARSH IN PARIS

PRESIDENT FRANCOIS Mitterrand yesterday said French nuclear *tests in the South Pacific* would continue "as long as judged necessary." In a television address combining toughness with gestures of conciliation after his visit to the island testing area of Mururoa, he invited Government leaders from Australia, New Zealand and other Pacific nations to inspect the controversial test site.

This followed a strong attack on France by Mr David Lange, the New Zealand Prime Minister, who said France was treating New Zealand as "an enemy" rather than an adversary.

President Mitterrand called for scientific co-operation in civilian areas between France and the Pacific nations which have been protesting over the Mururoa explosion. He also announced the setting up of a new study institute to try to maintain *and spread French language* and culture in the South Pacific.

Although designed to show France would not bow to pressure over its nuclear tests which have *been heightened by the Rainbow* Warrior affair, M Mitterrand made clear he had no interest in furthering diplomatic squabbles with New Zealand and Australia.

Two French secret service agents imprisoned in Auckland will go on trial in November on charges of blowing up the Greenpeace vessel Rainbow Warrior in July. Despite this, M Mitterrand's position is that the identity of the authors of the attack remains a mystery.

During his visit to Mururoa, where he presided over a meeting of military officials and ambassadors and also toured the top secret test centre, M Mitterrand classified as an "adversary" any country trying to undermine France's sovereignty over its South Pacific territory.

He asked Australia to allow French experts to visit the country's test areas used by Britain to explode nuclear bombs during the 1950s. This would allow France to study measures taken by Australia *"to remove all traces of radioactivity,"* he said.

Although Elysee Palace officials said the invitation was not "a trap," the suggestion *is* clearly geared towards reminding the world that France is not the first nuclear power to let off bombs in the Pacific.

Investigations into radioactive pollution produced by the British explosions have stirred up considerable controversy in Australia in recent years.

Our foreign staff writes: Mr Lange said that he had offered to meet President Mitterrand during his trip to the Pacific but had received no reply.

"New Zealand did not buy into this fight," he said. "France puts spies into New Zealand. France lets bombs off in the Pacific. France puts *its President in the Pacific* to crow about it . . . apparently it's the way to win a French election."

Hanson suffers new blow in SCM battle

BY TERRY DODSWORTH IN NEW YORK

HANSON TRUST, the UK industrial group, suffered a potentially decisive blow at the weekend to its bid for control of SCM, the U.S. conglomerate, when a New York court *banned it from acquiring more* shares in the company or voting its 25 per cent holdings.

Lawyers for Hanson said that they would appeal against the decision, which was handed down at a special hearing late on Saturday. But legal specialists said that the judgment was extremely unambiguous and that it was unlikely that Hanson would be able to change the opinion of the court.

The legal action followed a hectic two-hour share buying spree by Hanson last Wednesday, only short*ly after it had terminated a formal* $72 a share tender offer for SCM. This had valued SCM at about $876m.

The U.S. company, which had earlier announced that it was planning a $74 a share management buyout backed by Merrill Lynch, the U.S. securities house, charged Hanson with acquiring stock at $73.50 a share in a "secret plan to acquire control of the company."

It said that the UK group had issued a press release announcing the end of its tender offer that was "intentionally and materially false and misleading," and that Hanson was proceeding with a "de facto" tender offer which, in violation of the securities laws, did not give equal treatment to all shareholders.

Under the terms of the SCM management buyout proposals, Hanson could have effectively blocked the offer by acquiring a third of the company, since the bid was dependent on the acceptance of two thirds of the shares.

Hanson, which was advised by Rothschild Inc, the New York investment bank, denied that its actions constituted a tender offer. It said that it had not made active solicitations for SCM shares, that it did not put pressure on shareholders to sell to it, and that it did not specify a time period for them to sell.

Sir Gordon White, head of Han-

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Chief resigns as wine row hits Kikkoman

By Jurek Martin in Tokyo

THE PRESIDENT of Kikkoman, the prominent Japanese food and drink company, is due to resign soon because of a growing scandal in a wine subsidiary. Mr Katsumi Mogi said he would step down "to take responsibility for betraying consumers' trust and hurting employees' pride."

At the same time, Mr Schichizaemon Mogi and six other directors of Mann's Wine all resigned summarily at the weekend. The Mogi family has a large stake in Kikkoman, best known as Japan's leading producer *of soya sauce.*

The Mann's Wine scandal is a by-product, in the literal sense, of the Austrian wine adulteration affair, which involved the use of diethylyn glycol to *improve* the taste of low-cost table wines. Japan imports considerable quantities of bulk wine from Europe for domestic bottling and blending.

Any wine with 5 per cent or more domestic grape content may be sold in Japan as a purely Japanese product. Government investigations into the diethylyn glycol contamination

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Egypt and Jordan hold talks ahead of Thatcher visit

BY TONY WALKER IN CAIRO AND ROGER MATTHEWS IN LONDON

PRESIDENT Hosni Mubarak of Egypt and King Hussein of Jordan held talks in Cairo at the weekend in an effort to breathe life into the stalled Middle East peace process.

Their meeting came on the eve of the visit to both countries by Mrs Margaret Thatcher, the British Prime Minister. Mrs Thatcher arrives in Cairo tonight and will travel to Jordan on Wednesday.

There has been growing concern in moderate Arab capitals at the lack of progress in the peace process and particularly the delay in holding the proposed first-stage meeting between U.S. officials and a joint Jordanian-Palestinian delegation.

Officials in Cairo and Amman have made clear their disappointment at what they see as U.S. reluctance to respond positively to the peace initiative sponsored by King Hussein and Mr Yassir Arafat, chairman of the Palestine Liberation Organisation.

Mr Hosni Mubarak: in peace process talks

Mrs Thatcher is keen to assess at first hand the prospects of further peace moves but her officials have cautioned against expecting any dramatic developments during the visit. While emphasising Britain's historic role in the Middle East and its importance within the European Community, Jordan and Egypt are likely to pin more hope on the possible influence that Mrs Thatcher can exert on President Reagan.

King Hussein and Mr Mubarak are both due to see Mr Reagan in Washington later this month but meanwhile are anxious for their concern over the lack of progress to be appreciated fully in the West.

Dr Osama al Baz, political adviser to President Mubarak, said yesterday that if Washington did not play "an active and positive role, the risks will be great for everybody and will help only the extremists on both sides."

Mrs Thatcher is likely to be urged to receive a joint Jordanian-Palestinian delegation in London and to soften her resistance to meetings between PLO officials and British ministers.

Mrs Thatcher's visit to Egypt will be the first by a British Prime Minister for more than 40 years. She will also take the opportunity to inspect work on the huge Cairo wastewater project being undertaken by UK companies and to look at other opportunities for developing bilateral trade.

The visit to Jordan will be the first undertaken by a British Prime Minister, although King Hussein is a regular visitor to London and there are strong links between the royal families of the two countries. The Queen visited Jordan last year.

During a busy schedule Mrs Thatcher is to visit a Palestinian refugee camp, a gesture that is likely to be well received in the Arab world even though it will not signal any immediate change in British Government policy towards the PLO.

The Prime Minister will also discuss a £270m ($351m) financing facility to allow Jordan to purchase British military equipment, a development which has drawn adverse comment from Israel.

The Israeli Government has several times warned King Hussein against allowing the PLO to build up its presence in Jordan. The warnings have stemmed from increasing violence on the West Bank and Gaza, occupied by Israel in 1967.

King Hussein ejected Palestinian guerrillas from his country in 1970 and has this year stated several times that he believes that Mr Arafat is now ready to negotiate peace with Israel in return for Palestinian self-determination.

NEW LEADERSHIP'S RAPID MOVE SHATTERS PAST PRECEDENT AND BRITISH WISHFUL THINKING

Why Moscow took tough line in tit-for-tat expulsions

BY PATRICK COCKBURN IN MOSCOW

THE SOVIET decision to expel 25 British residents of Moscow on Saturday in retaliation for the same number of Soviet officials ordered out of Britain caught diplomats and journalists in the Soviet capital by surprise.

"After three weeks in Moscow devoted entirely to putting together Habitat furniture, laying lino in the kitchen and spraying the cockroaches I was suddenly expelled for impermissable activities," said Mr Robin Gedye, the newly-arrived Daily Telegraph correspondent, compelled to leave after less than a month in the country.

Along with other members of the 14-strong British Press corps who were in Moscow last Saturday he was suddenly telephoned in the late afternoon by Mr Donald Maclaren, the British Press Attache, and told to come to the embassy. Sir Bryan Cartledge, the British ambassador, had just returned from seeing Dr Vladimir Suslov, the head of the Second European Department of the Soviet Foreign Ministry which handles Britain.

After describing the British eviction of the 25 Soviet officials on Thursday as "hostile and malicious and designed to poison relations between the two countries," Dr Suslov handed Sir Bryan a list in Russian of the names of 18 diplomats and Embassy staff, five journalists and two businessmen. All are to be out of the country in three weeks.

The 80 embassy staff, hastily summoned from various foreigners-only buildings scattered around Moscow, looked as surprised as the correspondents. Photocopies of Dr Suslov's piece of paper were scrutinised like a wartime casualty list. "It must have been like this in ancient Egypt when the Angel of the Lord passed overhead slaying the first born," said the wife of one correspondent with some exaggeration.

The conventional wisdom on Thursday when Sir Bryan Cartledge went to see Dr Suslov—the Soviet charge in London was summoned to the Foreign Office at the same moment—to tell him of the expulsion of 25 Soviet officials was that retaliation would be limited and possibly token.

This assumption was based on past precedent and some wishful thinking. It was reinforced by the belief that Mr Mikhail Gorbachev, the Soviet leader, and Mr Eduard Shevardnadze, the Foreign Minister, would not want to muddy the waters before Mr Gorbachev's visit to Paris next month and his summit with President Reagan in November.

In the event the list of those expelled by Moscow is close to a mirror image of the officially declared occupations and status of the Russians expelled from London.

Why did Moscow retaliate with such vigour? Why did the Foreign Office underestimate their reaction?

Past precedent is not a good guide to Soviet diplomatic behaviour since Mr Gorbachev took over and Mr Andrei Gromyko, Foreign Minister for 28 years, was elevated to the presidency and replaced by Mr Shevardnadze.

The new leadership was clearly very angry at the London expulsions and the restrictions placed on Soviet UN staff in New York at the same time. Mr Gorbachev is also anxious to prove that he is tough as well as conciliatory though the latter attribute has been more evident in his first six months in power. He wants to show his capacity for energetic reaction in conducting foreign policy in marked contrast to what many Soviet officials see as the sloth of the old regime of President Brezhnev.

Mr Gorbachev wants to conciliate West Europeans as a whole, to reduce their support for the Strategic Defence Initiative—Star Wars—but not at the price of anything which might be interpreted as weakness. Kremlin has always been keen to prove that it will not be pushed around and this anxiety has grown since President Reagan came to power in his second term in 1984.

The Soviet press often mentions President Reagan's argument that being tough with the Russians will make them come to heel with the implicit suggestion that they will go out of their way not to do so.

Soviet relations with Britain have improved in the last year but this is partly a measure of how bad they were in 1979-83. Mr Gorbachev had a successful visit to Britain last December before taking over as leader. Sir Geoffrey Howe, the Foreign Secretary, distanced Britain from Star Wars and Mrs Thatcher came to President Chernenko's funeral in March.

The Kremlin does not like Mrs Thatcher's support for the installation of Pershing II and cruise missiles and what it sees as British efforts to get contracts for Star Wars research. The Government has "no intention of turning its back on the project, aware that Washington is using it to measure its ally's loyalty," claimed Soviet radio last week.

West German intelligence authorities are now understood to believe that the spy scandal which rocked Bonn last month, culminating in the defection to East Germany on August 19 of Herr Hans Joachim Tiedge, one of Bonn's most senior counter intelligence executives, was sparked by the defection to Britain, probably in July, of the Soviet KGB chief in London, Mr Oleg Gordievsky, Peter Bruce writes from Bonn.

Herr Tiedge's defection followed the still unexplained disappearance of three people—Frau Sonja Luneburg, chief secretary to the West German Economics Minister, Herr Martin Bangemann, for 12 years, Frau Ursula Richter, an accountant for a right-wing West German exile group and a friend of hers, Herr Lorenz Betzing, an artisan who once worked in the Government's top secret atomic bunker just south-west of Bonn. East Germany has denied having anything to do with Frau Luneberg and there have been suspicions that she was, in fact, a Soviet agent.

Both Frau Luneberg and Frau Richter are said to have entered West Germany in the same way—using assumed identities—thereby hardening suspicions that they were infiltrated into the country by the same organisation. West German intelligence experts are said to have assumed that Frau Luneberg at least was recalled by her employers following Mr Gordievsky's defection.

Guatemala Government under fresh pressure

BY OUR CORRESPONDENT IN GUATEMALA CITY

THE MILITARY Government in Guatemala headed by Gen Oscar Humberto Mejia Victores is under renewed pressure from student and worker protest. Gen Mejia is also struggling to maintain his authority within the powerful military establishment following his handling of a public protest over price rises 10 days ago.

A series of stoppages by civil servants in key jobs such as the Finance Ministry and Bank of Guatemala last week now threatens to spread into a general strike. Labour leaders are sceptical of government promises to realign salaries and wages with inflation.

Protest is also being geared towards forcing the Government to release hundreds of demonstrators arrested during the previous demonstrations against price rises that left five people dead.

Observers believe Gen Mejia's response to the disturbances has further undermined the Government's credibility. As with the April tax package – revoked after protests from the private sector hours after announcing that he would not bend to the demonstrators' demands – Gen Mejia lowered bus fares to their original levels.

Army officers, some of whom apparently criticised Gen Mejia for being weak and indecisive, were particularly displeased with the withdrawal of troops from the University of San Carlos, an institution regarded by the military as a centre of left-wing guerrillas.

This disaffection within the military establishment has been further fuelled by suggestions from a deputy in the National Assembly that Gen Mejia be replaced by a civilian-military junta headed by Gen Hector Alejandro Gramajo Morales, commander of the capital's largest military brigade.

The main danger for Gen Mejia now comes from extreme right-wing groups led by retired army officers and backed by conservative businessmen.

Negotiations on UK role in SDI adjourn

BY BRIDGET BLOOM, DEFENCE CORRESPONDENT

THE FIRST phase of detailed negotiations designed to give British companies and research organisations a share in the $26bn (£19.4bn) U.S. Strategic Defence Initiative programme, ended in London at the weekend.

Two teams, each of more than a dozen officials, began drafting what is hoped will become a framework agreement for signature by Mr Michael Heseltine, the UK Defence Secretary, and Mr Casper Weinberger, the U.S. Defence Secretary, later this year.

However, officials in London said it was not clear whether the agreement would simply repeat the willingness of the U.S. to have British participation in a number of separate projects in the so-called Star Wars project, or whether that it would allocate Britain a specific share of the programme.

Mr Heseltine surprised U.S. officials with his request last July that Britain should have at least a $1.5bn share in the SDI programme over its five-year life. The U.S. had invited European participation on the assumption that European companies would be involved in so-called pathfinder projects rather than Governments being allocated a guaranteed part of the whole programme.

Mr Weinberger last week repeated U.S. reservations about guaranteeing work to foreign countries. However, officials in London appeared optimistic at the weekend that a deal can be worked out which would take account of the concerns expressed by Mr Heseltine, notably the need to ensure a two-way transfer of technology between the U.S. and UK.

Britain also wants to ensure that the conditions under which its companies competed for work do not put them at a disadvantage compared with U.S. companies.

Britain's view appears to be that the U.S. can be persuaded to grant Britain conditions which it might be unwilling to extend to other European allies. This is partly because of the special relationship held to exist between the two countries.

The negotiating team is expected to meet again in Washington early next month. Officials envisage an Anglo-U.S. framework agreement or memorandum of understanding which would be made public, as well as a more detailed agreement which would remain classified.

Nancy Dunne adds from Washington: An American military observer in East Germany was "bumped in his truck deliberately" and held at gunpoint by Soviet soldiers for about nine hours, in the latest of a series of incidents involving the Soviet and U.S. military missions according to Mr Casper Weinberger, the U.S. Defence Secretary.

Mr Weinberger, speaking in a television interview, said that the U.S. filed a protest about the incident, which occurred "a few days ago" in hope that the Soviet mission "would do what they say they would and control their troops."

The American observer was "where we are supposed to be doing what we are supposed to be doing under a treaty more than 40 years old," said Mr Weinberger. He said the Soviet Union still had paid no compensation for the death of another American observer, shot several months ago by Soviet soldiers in East Germany.

China leadership set for change

BY ROBERT THOMSON IN PEKING

A SPECIAL National Communist Party Conference, likely to be a milestone in Deng Xiaoping's campaign to perpetuate his brand of pragmatism, is this week expected to bring significant changes in the Chinese leadership.

Diplomats in Peking believe a meeting of the party's Central Committee, convened to set guidelines for the conference, began on *Friday and ran over* the weekend. The meeting will be followed by the conference, which is expected to last about 10 days, and then there will be another Central Committee meeting to approve formally what the conference has decided.

Exactly how many young professionals Deng will be able to ease into the 25-member Politburo, the core of party power, is a source of great speculation among diplomats, who reckon that between four and 10 elderly members will be pensioned off. It is believed the figure will be closer to 10 and, *perhaps, even more than that.*

Deng's aim is to ensure a smooth leadership succession and to make certain the *modernisation drive he has* led will not go astray after his departure.

While Hu Yaobang, the Government party leader, and the Government head, Premier Zhao Ziyang, have said that they will not retire, two officials, Hu Qili and Li Peng, apparently being groomed to replace them, are likely to ascend to the Politburo. Also, Chinese officials have indicated that about 20 per cent of the 210-member Central Committee will be replaced.

The conference will give a good indication as to the popularity of both Mr Deng and his *policies within the party. If* things go as generally expected by diplomats, a number of ageing and conservative revolutionaries will retire with dignity, removing a potential ideological obstacle in the path of the reform programme.

● China has arrested two alleged Taiwanese spies who had plotted to "sabotage" the country's biggest iron and steel complex, Baoshan, under construction on the outskirts of Shanghai.

UN panel meets on investment in S. Africa

By Bernard Simon in New York

THE UNITED NATIONS today begins three days of public hearings on the role of multinational companies in sustaining the South African economy.

Although the 11-member panel hearing evidence has been instructed to be "fair, balanced and objective," the tentative list of witnesses is dominated by church, labour and lobby groups favouring a *withdrawal of foreign investment* from South Africa.

None of the 1,868 companies identified by the UN's Commission on Transnational Corporations as investors in South Africa has agreed to appeal but about 50 companies have submitted written testimony.

Business interests will be represented by a spokesman for the International Chamber of Commerce, the directors of the South African Association of Chambers of Commerce and the Federated Chamber of Industries.

The panel includes Mr Malcolm Fraser, the former Australian Prime Minister, Mr Gamani Corea, the former secretary general of the UN Conference on Trade and Development, and Mr Adolfo Esquivel, the Argentinian Nobel Prize winner.

The panel's brief is to recommend steps which governments and multinationals can take to speed up the dismantling of apartheid and South Africa's administration of Namibia in defiance of the UN.

New role 'likely' for Gurkhas

BY DAVID DODWELL IN HONG KONG

A NEW role is likely to be found after 1997 for the Gurkha battalion based in Hong Kong, Maj Gen Tony Boam, commander of the British Forces in the territory, said at the weekend.

He also said that the 12,000-strong *British garrison* in Hong Kong will be pared down gradually between now and 1997, when sovereignty in the territory is transferred from British to Chinese hands.

Of the British forces in Hong Kong, about 8,500 are Gurkhas, all recruited from Nepal. They have been *recruited into* the British Army for over 160 years, and recently been based in Hong Kong.

Gen Boam's comments will allay fears that the Gurkha regiment will be disbanded when troops are withdrawn from Hong Kong.

Gurkhas have served in India, Belize, on the Rhine and in the *Falklands. One battalion is on* secondment to the Sultan of Brunei, while another serves on rotation in the UK. The only place they are not deployed as a matter of Ministry of Defence policy is Northern Ireland.

● Talks on the return of Macao to Chinese sovereignty and *administration are likely to* begin by next April, according to Ma Mankei, a leading figure in the Chinese business community who has close links to Peking, speaking to local *journalists at the weekend.*

Macao, a tiny Portuguese-administered enclave on the south China coast adjacent to Hong Kong, has been acknowledged as Chinese territory by Lisbon for several years. Peking has decided to begin talks on the assumption of Chinese administration in the wake of the successful agreement with Britain over the return of Hong Kong into Chinese hands.

It has been widely assumed *that Peking aims to resume full* power in 1997, at the same time that it takes over in Hong Kong.

Honduras on alert after clash with Nicaragua

By Tim Coone in San Jose

HONDURA'S armed forces went on alert at the weekend and 2,000 troops advanced to the *southern frontier, after a bor*der incident with Nicaragua on Friday.

Honduras said Nicaraguan *artillery* bombarded several Honduran border posts, killing one soldier and wounding five. Honduran air force jets then intervened, bombing Nicaraguan troop and mortar positions inside Nicaragua. They claim to have downed one Nicaraguan helicopter.

In a statement on Saturday President Daniel Ortega of Nicaragua said the incident was sparked by a clash between Nicaraguan troops and 800 U.S.-backed rebels trying to enter Nicaragua from Honduras.

He called for bi-lateral talks to ease tensions.

Dutch steel group may be privatised

BY LAURA RAUN IN AMSTERDAM

HOOGOVENS, the Dutch steel group, *is one of several partially or* wholly state-owned companies that have been recommended for privatisation by an advisory panel to the Cabinet.

The recommendations cap a two-year evaluation process in which the centre-right Government has *sought to determine which state* holdings profitably could be sold to the private sector. The Christian Democrat-Liberal coalition entered office in 1982 with a policy of privatisation but so far has not sold any government shareholdings.

Hoogovens, with sales of Fl 7.26bn ($2.2bn), is the most prominent of the initial batch of companies recommended for spinning off to the private sector. The state owns 28.4 per cent of the Ijmuiden-based concern, a shareholding valued at Fl 210m nominal. Other companies on the recommendation list included Vredestein, an auto tyre concern that is wholly owned by the *state, and Gero,* a cutlery company that is 76 per cent owned by the state.

The Dutch Government has a relatively small stake in the private sector – about Fl 5bn nominal in 40 companies – compared with other European countries such as Italy, France and Britain. Furthermore, many of the state-held companies, such as DSM and KLM Dutch Airlines, are run as private concerns without operating subsidies.

Nevertheless, the call for privatisation has accelerated greatly in the past half year, fuelled by the suggestion of Mr H. Onno Ruding, the Finance Minister, that the state chemical company DSM would be a good place to start. The right-of-centre Liberal Party has estimated that the state could reap Fl 4bn from the sale of appropriate companies.

FINANCIAL TIMES

Published by The Financial Times (Europe) Ltd., Frankfurt Branch, represented by E. Hugo, Frankfurt/Main, and, as members of the Board of Directors, F. Barlow, R.A.F. McClean, G.T.S. Damer, M.C. Gorman, D.E.P. Palmer, London. Printer: Frankfurter-Societäts-Druckerei-GmbH, Frankfurt/Main. Responsible editor: C.E.P. Smith, Frankfurt/Main. © The Financial Times Ltd, 1985.

FINANCIAL TIMES, USPS No. 190640, published daily except Sundays and holidays. U.S. subscription rates $365.00 per annum. Second class postage paid at New York, N.Y. and at additional mailing offices. POSTMASTER: send address changes to FINANCIAL TIMES, 14 East 60th Street, New York, N.Y. 10022.

WORLD TRADE NEWS

Paul Cheeseright previews this week's talks in Washington on a restraint agreement for the Community

U.S. and EEC begin battle on steel trade pact

VERBAL skirmishing on the framework of a new agreement which will restrain the shipment of steel from the European Community to the U.S. starts in Washington today and becomes more intense tomorrow and Wednesday.

The Reagan Administration a year ago launched a programme to hold back the share of steel imports to 18.5 per cent of the U.S. market. It wants the negotiations to be concluded by the end of October.

Euphemistically, the European Commission which will be handling the talks describes their likely course as "difficult." It will be seeking to give away the minimum in the knowledge that the American market accounts for some two-thirds of all Community steel exports.

The Washington meeting will be the first of a series. Both sides will be probing each other to find out where there might be flexibility in a sector covering more than a score of products. But neither side has worked out a precise negotiating position so far.

Speculation in Washington suggests that the U.S. will seek to cut back further the Community share of the market. Within the 18.5 per cent ceiling, the U.S. is having to cope with the supplies not only from traditional exporters like the EEC and Japan but also from newer entrants to the market like Portugal and Saudi Arabia.

Neither the U.S. nor the EEC in the talks is sure what will be acceptable to its own industry. On the EEC side there are always difficulties about how to share out reduced shipments in a restraint agreement. The U.S. industry has been putting the Administration under constant pressure to hold down imports: more than 40 anti-dumping actions are pending, although not against EEC producers.

Steel has been the cause of considerable friction in U.S.-EEC trade relations, despite the existence of restraint agreements, not least because the strength of the dollar has placed the American industry under extra pressure from imports.

The basic aim of the negotiations is to renew the 1982 carbon steel agreement. But there are several *elements to this.*

EEC MARKET SHARES 1982 carbon steel agreement	
Product	Percentage
Hot rolled sheet and strip	6.81
Cold rolled sheet	5.11
Plate	5.36
Structurals	9.91
Wire rods	4.29
Hot rolled bars	2.38
Coated sheet	3.27
Tin plate	2.20
Rails	8.90
Sheet piling	21.85

● In October 1982, the two sides signed an agreement which covered shipments of most basic steels. A percentage share of the market for the *EEC was allotted to 10 categories* of product, which averaged out at 5.4. In return no anti-dumping actions against EEC producers would be started by U.S. companies. The EEC shipments are controlled by export licences. The agreement lasts until December 31 1985.

● Alongside this, there was an accord which provded for the U.S. to call for consultations on shipments of another 17 products if it spotted undue rises *or suspected that* suppliers were switching from the controlled products to this list. These are the "consultation products."

The U.S. did call for consultations in February. The result was an agreement last month that the EEC would hold back shipments of 16 products, *regrouped into a list of 11, to* 198,000 tons between August and December 31 1985. This would not be a precedent, the EEC *made clear* then.

● There is also an agreement which in essence holds back EEC sales of pipes and tubes to 7.6 per cent of the U.S. market. *This was worked out in January* 1985. Putting into practice all the details caused so much trouble, that the EEC moved to the short-term agreement on the consultation products as a *price for winning its interpretation* of the pipes and tubes deal. It runs until December 31 1986.

The Commission believes that the pipes and tubes agreement is separate from the talks on the renegotiation of the 1982 agreement. But it is at least possible that the U.S. in the weeks ahead will seek to bring it in to the ambit of a wider agreement.

From the U.S. point of view it probably would make sense if the consultation products, which includes semi-finished goods, could also be part of a wider agreement — in other words that the short-term deal should be *made more permanent.*

The EEC point that the deal is not a precedent suggests that if this is the case it will demand *something in return.*

CONSULTATION PRODUCTS Shipment limits, August-December 1985	
Product	Tonnage
Alloy wire rod	9,241
Round and flat wire	73,090
Wire products	5,164
Black plate	23,856
Electrical sheet and strip	10,870
Tin free steel	17,498
Cold rolled strip	13,393
Cold finished and other bar	32,275
Bar shapes under three inches	9,212
Concrete reinforcing bars	780
Rail products	2,538

France challenges U.S. on Aids tests

BY DAVID MARSH IN PARIS

FRANCE has threatened legal action against the U.S. in order to win access to the key American market for diagnostic tests for Acquired Immune Deficiency Syndrome (Aids), the *rapidly spreading killer disease.*

The threat is the latest round in a running skirmish over the right to world-wide patents between scientists in the U.S. and France, both of whom claim primacy in discovering the Aids virus.

Institut Pasteur, the French public sector research institute has just received what it says is a "negative" response from the U.S. Health Department, to requests to start commercialisation of tests in the U.S.

M Raymond Dedonder, director of the institute, said at the weekend that the door to further negotiations was not "completely closed." But he declared the institute was ready to take legal action to secure its rights if attempts at conciliation failed.

Researchers at the Pasteur Institute claim to have discovered the Aids virus in May 1983, a year ahead of U.S. scientists. Diagnostic Pasteur, a joint subsidiary of the Sanofi drugs company and the institute has now started to market Aids tests in France. To prevent spreading of the disease through contamination of blood stocks used in transfusions, the Government last month made Aids tests obligatory for all blood donors.

Abbott Laboratories, one of the five U.S. companies to have started *Aids tests in the U.S.* is also selling its screening test in France.

But in spite of repeated efforts, Diagnostics Pasteur, which has teamed up with the U.S. company Genetic Systems, has still not been granted patent rights to sell its test in the U.S. The overall world market in Aids screening is put at about $150m (£115m) a year.

The latest U.S. response, in a letter from a top Health Department official asks for complementary information concerning the Pasteur institute's patent request.

Until U.S. patent rights are granted, any attempts by Diagnostics Pasteur and Genetic Systems to start American marketing could expose the companies to counterfeiting charges and claims for royalties in U.S. courts.

British trade with Iran falls

By Maurice Samuelson

BRITAIN'S trade with Iraq rose by 55 per cent in the first seven months of this year, while British trade with Iran, the other belligerent in the Gulf war, fell by 20 per cent.

The fall in trade with Iran mainly reflects the collapse in British purchases of Iranian oil. Between January and July of this year imports from Iran were £40m compared with £234m in the corresponding period of last year.

British sales to Iran this year were also significantly down—to £220m from the £398m for January-July 1984.

The figures appear in the Department of Trade and Industry's latest monthly bulletin of foreign trade statistics.

For the Middle East as a whole — including Egypt, Israel and Turkey—UK trade in the first seven months rose by more than 10 per cent, with exports totalling £4.1bn and imports £1.9bn.

Saudi Arabia was the UK's biggest trading partner. It bought UK goods and services worth £813m *but sold goods* worth £257m to Britain.

UK set to sign Egypt aid deal

BY TONY WALKER IN CAIRO

A CENTREPIECE of Mrs Thatcher's visit to Egypt next week will be the signing of a British aid agreement for a £90m re-development of the Maghara coal mine in the Sinai.

Britain is providing a mixed aid and credit package totalling £50m to help re-construct and modernise the mine which was destroyed during the 1967 Arab-Israeli war.

Egypt will receive £12.5m as a direct grant. The remaining £37.5m is a credit at the Organisation for Economic Corporation and Development (OECD) consensus rate backed by Britain's Export Credit Guarantee Department (ECGD). Morgan Grenfell, the merchant bank, is arranging financing. The £12.5m grant agreement is expected to be signed in the presence of Mrs Thatcher and Dr Ali Lutfi, her Egyptian counterpart, on Tuesday.

Babcock Contractors of Britain, a division of Babcock International, has won the contract to oversee the re-development of the mine which is expected to produce 600,000 tonnes of coal a year after four years in operation.

Under an agreement signed earlier this year Babcock will help to bring into production Maghara's "first shift" of 375,000 tonnes to be produced annually.

Initially, coal mined at Maghara, which is 120 kilometres south-west of el Arish, will be used in Egyptian steel making.

Under the terms of the British aid package, contracts for equipment supplies will go to UK companies. Among these Babcock's own mining equipment *manufacturing* companies are expected to figure prominently.

California tax Bill fails

THE California legislature has adjourned its 1985 session without passing a unitary tax reform Bill that had been sought by huge multinational corporations and several foreign countries, Reuter reports from Sacramento.

The adjournment ended a long and expensive lobbying attempt to repeal or amend a tax law that assesses a company's tax bill based on its *worldwide sales, payroll and California property.*

World Economic Indicators

FOREIGN EXCHANGE RESERVES (U.S.$m)

	July 85	June 85	May 85	July 84
U.S.	7,958	7,407	7,158	6,105
UK	8,109	7,827	7,468	7,001
Japan	23,787	23,379	23,191	20,993
W. Germany	35,939	34,415	33,781	38,422
Italy	19,535	18,699	17,617	18,532
Netherlands	8,050	7,537	7,522	8,588
Belgium	4,051	4,081	4,138	3,136
	June 85	May 85	April 85	June 84
France	21,685	20,968	20,222	19,419

Source: IMF

NOTICE OF REDEMPTION

GENERAL MOTORS ACCEPTANCE CORPORATION OF CANADA LIMITED

Canadian $60,000,000 18% Notes due October 1st, 1987

Pursuant to the terms of paragraph 8 (a) of the Notes, which provides that at any time on or after October 1st, 1985 the Notes may be redeemed at the option of the Company, notice is hereby given that General Motors Acceptance Corporation *of Canada Limited intends to* redeem on October 1st, 1985 the Cdn. $60,000,000 18% Notes due October 1st, 1987 at a price of 101% of the principal amount together with interest on such principal amount accrued and unpaid to the said date of redemption.

The redemption price of *the said* Notes *shall* be payable on presentation and surrender thereof with all unmatured coupons at any one of the following paying agencies:

BANK OF MONTREAL
Toronto Securities Service Centre
B 1 Level, First Canadian Place
Toronto, Ontario
M5X 1A1
Canada

BANK OF MONTREAL
9 Queen Victoria St.
London EC4N 4XN
England

BANQUE BRUXELLES LAMBERT S.A.
60 Cours St. Michel
1040 Bruxelles,
Belgium

BANQUE GÉNÉRALE DU LUXEMBOURG S.A.
27 Avenue Monterey
P.O. Box 1906
Luxembourg

CHEMICAL BANK
P.O. Box 17 41 6
Ulmenstrasse 30
6000 Frankfurt 17,
West Germany

CHEMICAL BANK
190 Avenue Charles DeGaulle
92523 Neuilly-Sur-Seine
Paris, France

CHEMICAL BANK
Freigutstrasse 16
8002 Zurich,
Switzerland

NOTES should be surrendered with all coupons appertaining thereto maturing on or *after the date fixed for redemption, failing which the face value of any* coupon not so delivered will be deducted from the sum due for payment.

Any amount so deducted will be paid against surrender of the said coupons within a period of 10 years from October 1st, 1985. On and after the date fixed *for redemption, interest on the notes will cease to accrue.*

Dated at City of Toronto this 19th day of August, 1985.

GENERAL MOTORS ACCEPTANCE CORPORATION OF CANADA LIMITED

WORLD TRADE NEWS

CONCERN GROWS OVER SECURITY OF CONTRACTS

Japanese in battle for China debts

BY ROBERT THOMSON IN PEKING

SEVERAL JAPANESE companies are battling to recover money owed to them under agreements with Chinese provincial authorities, prompting concern among other foreign companies about the security of contracts in the republic.

The problem has been raised in meetings between the visiting Mr Keijiro Murado, Japanese Minister for International Trade and Industry, and Chinese leaders. Japanese officials have warned that the unsettled cases have made some Japanese companies wary of doing business in China.

In one case, Japanese companies are understood to be awaiting payment for goods exported to Hainan Island, off southern China, where members of the local government were recently sacked for taking advantage of the island's duty concessions by importing foreign goods for resale at a huge profit on the mainland.

Chinese authorities have told Japanese officials that foreign companies should make sure that local authorities have the money to keep their end of the bargain. No contract has officially been scrapped but the affected Japanese companies are concerned that they will not get what is owed to them.

Mr Murada said China would be more attractive to foreign investors if three steps were taken.

- Lengthen the duration of joint ventures—investors claim the venture period is sometimes too short for them to be sure of making a profit;
- Make economic legislation more secure;
- Allow a free transfer of profits to the foreign company's base country.

Debate over the third issue is believed to be holding up the signing of a long-term Sino-Japanese agreement on investment and protection.

The Japanese are seeking but are yet to receive explicit assurances that there will be a free transfer. Zhao Ziyang, the Chinese premier, told Mr Murada that China had long-term investment agreements with many other countries and the two countries should settle the matter "as early as possible."

Zhao also raised the issue of the huge trade surplus in Japan's favour. In the first six months of this year, according to Chinese figures, the surplus was $2.3bn (£1.7bn). The Chinese premier "hoped" the Japanese would import more Chinese oil products.

Argentina needs economic and political support, writes **Jimmy Burns**

Alfonsin seeks European investment

PRESIDENT RAUL ALFONSIN of Argentina today begins a state visit to West Germany during which he will be lobbying both the Bonn Government and industry to invest more in Argentina and adopt a more sympathetic attitude to his country's $46bn foreign debt.

On Wednesday he goes on to France with the same message. On both occasions he will also be taking the opportunity to obtain diplomatic backing for negotiations between Britain and Argentina in which Argentine claims to the sovereignty of the Falklands are recognised.

The West German Government is expected to sign a number of scientific and commercial co-operation agreements.

But the main interest will focus on discussions with West German companies which already have a considerable stake in Argentina, like Siemens, Kraftwerk Union and Mercedes Benz.

Siemens, whose interests in Argentina span energy installation, electrical hardware, hospital equipment and nuclear power, has expressed a strong interest in expanding into local telecommunications, following its successful bid in April this year for the troubled local ITT subsidiary Standard Electric.

The Argentine state telephone company has drawn up a draft plan for installing a minimum of 1m lines before 1989, at an estimated cost of over $1bn.

Alfonsin: lobbying

By contrast, Kraftwerk, after taking the brunt of a slow down in Argentina's ambitious nuclear programme, is seeking reassurances from the Alfonsin Government about the future of the reactor Atucha II, whose completion date is now well behind schedule, owing to lack of finance.

Mercedes Benz, meanwhile, is understood to be considering a $50m extension of its truck plant, amid signs that Buenos Aires' popular but archaic bus service may soon be heading for a revamp.

West German diplomats insist that banking relations with Argentina have much improved now that President Alfonsin has adopted a more orthodox approach to his country's economic problems. However, difficulties persist on the strictly financial front. Argentina has yet to resolve outstanding payments worth over $200m for West German armaments delivered both before and since the Falklands war under contracts signed by the former military regime.

The only sensitive subject surrounding Sr Alfonsin's trip to France appears to be political. A French television film aired last week about the alleged torture and death of two French nuns following the Argentine coup may lead to a fresh plea for the extradition of one of the Argentine naval officers allegedly involved—Captain Alfredo Astiz. The officer was returned to active duty earlier this year after being exonerated by an Argentine military tribunal.

Nevertheless, Argentine and French officials still boast of a strong "special relationship" as a result of the support given to current members of the Alfonsin Government during exile in Paris. Sr Dante Caputo, the Foreign Minister, is one of them, and is today married to a former member of the French Foreign Ministry.

The Astiz case is, moreover, unlikely to deter several French companies from pressing for their own share of Argentine business once the Buenos Aires Government gives its approval.

The larger projects include a $100m methanol plant in southern Argentina and a $140m modernisation of the Buenos Aires Metro. Thomson may also compete with Siemens for the telephone contract.

Smaller projects expected to be ratified include a $20m sunflower processing plant near Santa Fe to be built by Sodeteg and a $12m improvement of Buenos Aires' water purifying installations by Degremont, a subsidiary of Lyonnaise des Eaux.

The Argentines will also confirm their broad commitment to opening up the Argentine oil sector to foreign investment, as well as to reaching an eventual grain production target of 60m tonnes, thanks to the development of road transport, ports, and storage facilities.

The common diplomatic thread next week will be the Falklands issue. As the next United Nations (UN) general debate approaches this autumn, the Argentines are once again pressing both the West Germans and the French to change their abstention votes in their favour.

It is understood, however, that while Bonn and Paris are willing to consider taking a more public position of support in favour of a peaceful settlement to the dispute about sovereignty, they will resist any attempt to split the European Community inside the UN.

Argentine officials, meanwhile, have yet to decide what unilateral action they can take to break the present impasse with Britain, following their refusal to reciprocate the UK's lifting of its trade embargo on July 8.

SHIPPING REPORT

Tanker market rates stay firm

By Lynton McLain

ACTIVE trading in the oil tanker markets last week resulted in a shortage of tanker capacity and more aggressive trading than for some time.

Tanker owners were described by shipping brokers as maintaining the advantage that they had recently established with the rise in the level of business. The market for large vessels remained relatively unscathed, according to brokers.

A U.S. oil company chartered a 280,000 tonne vessel for loading at Sirri Island for discharge in Europe, at Worldscale 28.5. Tonnage of a similar size was chartered for eastern ports at around Worldscale 32.5 to 35. This continued the firm levels set by Japanese charterers in the previous week.

Most sectors of the tanker market experienced an increased level of inquiry last week and rates generally increased. E. A. Gibson Shipbrokers urged caution about assuming that the pattern would continue.

Brokers noted a broadening of inquiry over the week for tonnage loading at Mediterranean terminals, mainly for cross-Mediterranean trades.

Inquiries out of the Black Sea were less evident, although a vessel was chartered at Worldscale 66.5 on a 90,000 tonne cargo for a voyage to Trieste.

Contracts and Tenders

REPUBLIQUE ALGERIENNE DEMOCRATIQUE ET POPULAIRE

(Algerian Popular Democratic Republic)

MINISTERE DE L'ENERGIE ET DES INDUSTRIES CHIMIQUES ET PETROCHIMIQUES
(National Oil Exploitation Company)

ENTREPRISE NATIONALE DES TRAVAUX AUX PUITS
(National Oil Exploration Company)

NOTICE OF NATIONAL AND INTERNATIONAL OPEN CALL FOR TENDERS
NUMBER 9166 AY/MEC

The National Oil Exploitation Company is launching a National and International Open Call for Tenders for the supply of the following:

Lot No. 1 — Independent 1,000 hp pumping unit comprising a 1,100 hp CAT D 399 diesel engine and a Triplex sludge pump — quantity: 2.
Lot No. 2 — Siemens alternator Type 1FCA-354 4FE 45 — quantity: 2.
Lot No. 3 — Caterpillar D. 379 500 kVA 60 Hz generator set — quantity: 4.

Tenderers interested in this Call for Tenders may obtain the specifications from the following address:

ENTREPRISE NATIONALE DES TRAVAUX AUX PUITS (ENTP)
16 ROUTE DE MEFTAH, OUED SMAR, EL-HARRACH
ALGIERS, ALGERIA
Direction des Approvisionnements (Supplies Division)

for the amount of 400 Algerian Dinars, with effect from the date on which this notice is published.

Offers, of which five (05) copies should be prepared, must be sent in a closed double-sealed envelope by registered mail to the Secrétariat de la Direction des Approvisionnements (Secretariat, Supplies Division) at the above address.

The outer envelope should bear no mark that might identify the tenderer, or any heading, and should read: "AVIS D'APPEL A LA CONCURRENCE OUVERT NATIONAL ET INTERNATIONAL No. 9166 AY/MEC—CONFIDENTIEL—A NE PAS OUVRIR" (National and International Open Call for Tenders No. 9166 AY/MEC—Confidential—Do Not Open). *Tenders must be received within 45 days after this notice is published.*

Tenderers shall be bound to their offers for a period of 180 days after the closing date of this Call for Tenders.

REPUBLIQUE ALGERIENNE DEMOCRATIQUE ET POPULAIRE

(Algerian Popular Democratic Republic)

MINISTERE DE L'ENERGIE ET DES INDUSTRIES CHIMIQUES ET PETROCHIMIQUE
(Ministry for Energy & Chemical & Petrochemical Industries)

NOTICE OF NATIONAL AND INTERNATIONAL OPEN CALL FOR TENDERS
NUMBER 9168 AY/MEC

ENTREPRISE NATIONALE DES TRAVAUX AUX PUITS
(National Oil Exploitation Company)

The National Oil Exploitation Company is launching a National and International Open Call for Tenders for the supply of the following:

Lot — KHD power pack for skid with Deutz Type B.A. 12 M 816 motor — quantity: 3.

Tenderers interested in this Call for Tenders may obtain the specifications from the following address:

ENTREPRISE NATIONALE DES TRAVAUX AUX PUITS (ENTP)
16 ROUTE DE MEFTAH, OUED SMAR, EL-HARRACH
ALGIERS, ALGERIA

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Tenderers shall be bound to their offers for a period of 180 days after the closing date of this Call for Tenders.

THE SOCIALIST REPUBLIC OF THE UNION OF BURMA

Electric Power Corporation Invitation to tender

Tender No 2 (T) FPP-EPC/WB-1245-BA/85

1. The Electric Power Corporation (EPC) in Rangoon, Socialist Republic of Union of Burma, was extended a credit of US$80 million in 1982 from International Development Association (IDA) for financing a power transmission project. A general procurement notice was published in Development Forum on July 31, 1982. The present notice is to up-date the above notice.
2. EPC is now intending to apply a portion of proceeds of above credit to eligible payments under contracts for following lots:
   Lot 8 — Transformers, switchgear and accessories;
   Lot 9 — Power cables, signal cables, poles, conductors, insulators and hardware.
   The scope includes supply and supervision of erection of equipment and materials and necessary training.
3. A complete set of bidding documents is available from office of Managing Director, Electric Power Corporation, 197/199 Lower Kemmendine Road, Rangoon, Burma (Telephone 85366, Telex 21306 EPCUB MB, Cable address ESBUB) beginning 1 October 1985. A payment will be required of US$200 or equivalent currency of Kyats 1,800 for documents of each lot. The remittance will be deposited in Myanma Foreign Trade Bank of Burma, Rangoon.
4. Tenders will be closed on 2 December 1985, 10:00 a.m. (local time) and will be opened the same day at 12:00 noon (local time).
5. Tenders will be accepted only from the tenderers who have officially purchased the tender documents.
6. No site visit is compulsory but intending bidders who wish to make a site visit should apply at least one month before bid closing date.
7. All queries asking for clarification of bidding documents will be directed to consulting engineer: Norconsult A.S., Water Engineering Division, Kjoerbuveien 20, 1300 Sandvika, Oslo, Norway. A copy of query will be sent to EPC. No queries are accepted after 1 November 1985.

Managing Director
Electric Power Corporation

CONSTRUCTION OF THE PORT OF SAIDA LEBANON

OGER INTERNATIONAL is looking for potential companies that are able to construct a 2,000 m jetty with a varying depth of zero to 18 meters and a surge of 8 to 10 meters.

The expected work duration is 22 months with a probable starting date during the first semester 1986.
The prequalification documents have to be sent in French or English prior to October 15, addressed to
Oger International
Tour Gan, Cedex 13
92082 PARIS LA DEFENSE.
These documents must imperatively include the technical and financial references.
For any complementary information concerning this project [illegible]

SALE BY TENDER

THE ASSETS OF RELIABLE TOY CO. LIMITED

Sealed tenders will be received by the undersigned as Trustee in the Proposal until 12:00 noon on Tuesday, October 15th, 1985, at 789 Don Mills Road, Suite 504, Don Mills, Ontario, for the purchase of the following assets:

Parcel No. 1	The name Reliable Toy Co. Ltd.;
Parcel No. 2	The shares of Reliable Toy Co. Limited;
Parcel No. 3	The inventory of finished goods;
Parcel No. 4	Unfilled orders on hand approximating $865,008; list to be provided to successful purchaser;
Parcel No. 5	Tool and dyes;
Parcel No. 6	Value of raw materials at standard cost, $871,170;
Parcel No. 7	Manufacturing and production equipment;
Parcel No. 8	Office furniture and equipment;
Parcel No. 9	Plessey Computer with disk drive, tape back-up, 22 ports and software, two Anadex printers, two Plessey video terminals, eleven Lanparscope video terminals;
Parcel No. 10	Two PDP8E DEC Computers with four RK05 drives, each with interface boards and four LA36 Decwriters (printers);
Parcel No. 11	Mitel SX200 telephone system (Ericsson).

Envelopes containing tender must be sealed and clearly marked "Tender—re Reliable Toy Co. Limited."
The assets may be inspected by appointment only.
Any tender submitted shall be subject to the Trustee's Conditions of Sale which are available from the Trustee.
The highest or any offer will not necessarily be accepted.
For additional information please contact Mr. Richard Kline, C.A., at the office of the Trustee:

YALE & PARTNERS LIMITED
Trustee in Bankruptcy
789 Don Mills Road, Suite 504
Don Mills, Ontario M3C 3M2
Telephone: (416) 424-3020

GOVERNMENT OF PAKISTAN

DEPARTMENT OF IRRIGATION AND POWER
GOVERNMENT OF SIND
SUKKUR BARRAGE GATES REHABILITATION
CONTRACT 2
REPLACEMENT GATES

PREQUALIFICATION AND REGISTRATION OF PROSPECTIVE TENDERERS

Sukkur Barrage and *headworks* were commissioned in 1932 and provide irrigation supplies to some 8 million acres in Sind, Pakistan. the barrage and head regulator gates are to be replaced and hoist gear and *electrics rehabilitated.*
In anticipation of Government of Pakistan's final approval of the project (and ODA's agreement to finance the offshore components) *applications are now requested* for prequalification of tenderers to be included on a select list for carrying out Contract 2, which will include:

(a) Design, fabrication and *installation of 56 barrage gates (vertical* lift, span 18.3m, height 6.1 and 7.5m)
(b) Design, fabrication and installation of 55 canal head regulator gates (*middle gate of 3 tier set, span 7.6m, height 1.6 to 2.7m*)
(c) Overhaul of all gate hoist equipment
(d) Replacement of electric cabling and switchgear
(e) *Provision of a small maintenance workshop*
(f) Operation of the pontoon and caisson gates provided under Contract 1 for temporarily closing barrage gate bays
(g) *Training of Government of Sind staff in design and operation* and maintenance

NATIONALITY

As UK aid funds are to be utilised for the rehabilitation, only British and Pakistani firms may be involved in the Project. Equipment and materials including *steel shall be British*. It is to be expected that the majority of gates will be fabricated in Pakistan. To prequalify tenders should be British and Pakistani companies in association or *British companies intending to form* such associations.

PREQUALIFICATION OF TENDERERS

Contractors who wish to participate in the above contract should submit their names and addresses to the Project Consultant before 14th October 1985.

PROJECT CONSULTANT

The Project Consultant is:
SIR M MACDONALD AND PARTNERS LIMITED
Demeter House, Station Road
Cambridge, CB1 2RS
who will acknowledge all applications and in due course supply *application forms and further particulars.*

NOTICE OF PURCHASE

1 — 23 (twenty-three) Relative Motion Radars and 1 (one) ARPA Radar will be purchased by D.B. Turkish Cargo Lines under sealed envelope.
2 — The relevant administrative and technical specifications can be obtained starting 23.8.1985 from the following address:
D.B. Turkish Cargo Lines
Foreign Supply Department
Meclisi Mebusan cad. No: 93-95-97
Findikli, Istanbul, Turkey.
3 — The quotations received after 23.9.1985 at 17.00 hours will not be accepted.
4 — Quotations received after the above date and hours will not be considered; postal or any other delays will not be accepted.
5 — D.B. Turkish Cargo Lines is not constrained by Government Adjudication law number 2886 therefore it is free to cancel or award this adjudication to whomever it sees fit.

CONTRACTS AND TENDERS ADVERTISING APPEARS EVERY MONDAY
THE RATE IS £35.50 PER SINGLE COLUMN CENTIMETRE PLUS VAT

Company Notices

NOTICE TO HOLDERS OF EUROPEAN DEPOSITARY RECEIPTS (EDRs) IN
TOPPAN PRINTING CO., LTD.

Further to our notice of May 21, 1985 EDR holders are informed that Toppan Printing has paid a dividend to holders of record May 31, 1985. The cash dividend payable is Yen 4.5 per Common Stock of Yen 50.00 per share. Pursuant to the Terms and Conditions the Depositary has converted the net amount, after deduction of Japanese withholding taxes, into United States Dollars. EDR holders may now present Coupon No. 8 for payment to the undermentioned agents. Payment of the dividend with a 15% withholding tax is subject to receipt by the Depositary or the Agent of a valid affidavit of residence in a country having a tax treaty or agreement with Japan giving the benefit of the reduced withholding rate. Countries currently having such arrangements are as follows:

A.R. of Egypt	F.R. of Germany	Malaysia	Singapore
Australia	Finland	The Netherlands	Spain
Belgium	France	New Zealand	Sweden
Brazil	Hungary	Norway	Switzerland
Canada	Indonesia	Poland	United Kingdom
Czechoslovakia	Ireland	Rep. of Korea	U.S. of America
Denmark	Italy	Romania	Zambia

Failing receipt of a valid affidavit Japanese withholding tax will be deducted at the rate of 20% on the gross dividend payable. The cut rate of 20% will also be applied to any dividends unclaimed after December 31, 1985. Amounts payable in respect of current dividends:
Coupon No. 8 [illegible]

Depositary: Citibank, N.A. 336 Strand, London WC2R 1HB
Agent: Citicorp Bank (Luxembourg) S.A. 16 Avenue Marie Therese
September 16, 1985

GOLD FIELDS OF SOUTH AFRICA LIMITED
(Incorporated in the Republic of South Africa)
DECLARATION OF FINAL DIVIDEND (No. 75)
UNITED KINGDOM CURRENCY EQUIVALENT

In accordance with the Standard Conditions relating to the payment of dividend No. 75 declared on 20 August 1985, payments from the office of the United Kingdom Registrar will be made in United Kingdom currency at the rate of exchange of R3.421675 South African currency to £1 United Kingdom currency, this being the first available rate of exchange for remittances between the Republic of South Africa and the United Kingdom on 11 September 1985, as advised by the Company's South African bankers. The United Kingdom currency equivalent of Final Dividend (No. 75) of 80 cents per share is therefore 23.37900p per share.

By order of the Board
per pro CONSOLIDATED GOLD FIELDS PLC
London Secretaries
Mrs G. M. A. Gledhill, Secretary

London Office: 49 Moorgate London EC2R 6BQ
United Kingdom Registrar: Hill Samuel Registrars Limited 6 Greencoat Place London SW1P 1PL

12 September 1985

SOCIETE CENTRALE DE BANQUE
$ U.S. 20.000.000
FLOATING RATE NOTES DUE 1987

We inform the bondholders that in accordance with the terms and conditions of the notes, SOCIETE CENTRALE DE BANQUE, PARIS has elected to redeem all of its outstanding notes on October 9, 1985 at 100%.

Interest on the said notes will cease to accrue on October 9, 1985.

The notes will be reimbursed, coupons nr 13 due April 1986 and followings attached according to the terms and conditions of the notes.

THE PRINCIPAL PAYING AGENT
SOCIETE GENERALE ALSACIENNE DE BANQUE
15, Avenue Emile Reuter
Luxembourg

CAISSE NATIONALE DES TELE-COMMUNICATIONS
$ U.S. 275.000.000
FLOATING RATE NOTES DUE 1990

We inform the bondholders that in accordance with the terms and conditions of the notes, CAISSE NATIONALE DES TELECOMMUNICATIONS, PARIS has elected to redeem all of its outstanding notes on October 24, 1985 at 100%.

Interest on the said notes will cease to accrue on October 24, 1985.

The notes will be reimbursed, coupons nr 8 due April 1986 and followings attached according to the terms and conditions of the notes.

THE PRINCIPAL PAYING AGENT
SOCIETE GENERALE ALSACIENNE DE BANQUE
15, Avenue Emile Reuter
Luxembourg

NICOR OVERSEAS
NOTICE OF REDEMPTION OF CERTAIN DEBENTURES OF
FINANCE N.V.
DESIGNATED "14% SUBORDINATED DEBENTURES DUE MAY 1, 1995"

NOTICE IS HEREBY GIVEN that NICOR Overseas Finance N.V., a Netherlands Antilles corporation, (the "*Company*") and a *wholly owned* subsidiary of NICOR Inc., an Illinois corporation, has elected to redeem and will redeem all of the outstanding 14% Subordinated Debentures due May 1, 1995 (*the "14% Subordinated Debentures"*) of the Company as follows:

1. The Redemption Date is September 30, 1985.
2. The Redemption Price is 105% of the principal amount of the 14% Subordinated Debentures.
3. All of the 14% Subordinated Debentures will be redeemed.
4. On the Redemption Date the Redemption Price of $1,050 plus accrued interest from May 1, 1985 to September 30, 1985 of $57.94 will become due and payable for each $1,000 face amount of the 14% Subordinated Debentures and interest thereon shall cease to accrue on and after the Redemption Date.
5. The 14% Subordinated Debentures may be surrendered with all coupons maturing after the Redemption Date attached for payment at:

a. Continental *Bank/International*, One Liberty Plaza, New York, New York 10006.
b. Continental Bank, 30 North LaSalle Street, Chicago, Illinois 60697. Attention: Corporate Trust Operations, 16th floor.
c. Continental Bank S.A., 227 Rue de la Loi, 1040 Brussels, Belgium.
d. Continental Bank/Branch, 162 Queen Victoria Street, London EC4V 4BS, England.
e. Continental Bank/Branch, 10 Avenue Montaigne, 15008 Paris.
f. Continental Bank/Branch, Bockenheimer Landstrasse 24, 6000 Frankfurt/Main, West Germany, Federal Republic of Germany.
g. State Street Bank (Switzerland), Bahnhofstrasse 18, P.O. Box 5053, CH8023, Zurich, Switzerland.
h. Banque International a Luxembourg S.A., 2 Boulevard Royale, Luxembourg, Luxembourg.

Dated: August 20th, 1985 in London, England.

NICOR OVERSEAS FINANCE N.V.
By: Schuyler K. Henderson
Attorney-in-fact

AMER GROUP LTD.
NOTICE TO SHAREHOLDERS

The share certificates corresponding to the new share issue of 1985 by Amer Group *Ltd., with regard to the shareholders of* Marimekko Oy, are available and can be redeemed as from September 18, 1985, at the same office of Kansallis-Osake-Pankki where the subscription took place.
The share certificates will be surrendered against the interim certificates which were issued at the time of subscription.
In case the interim certificate is no longer in the possession of the original subscriber, the new shareholder must register his title in the company's register of shares and shareholders. Registration can be handled through any office of Kansallis-Osake-Pankki. The share certificates will be surrendered after such a registration.

AMER GROUP LTD.
Board of Directors

***BANQUE FRANCAISE DU* COMMERCE EXTERIEUR**
U.S.$600,000,000
Guaranteed Floating Rate Notes due 1999

In accordance with the provisions of the above mentioned floating rate notes, the rate of interest for the period September 13, 1985 to March 13, 1986 *(181 days) has been fixed* at 8¾% per annum. Interest payable on each note of US$10,000 on March 13, 1986 against Coupon No. 3 will be US$439.93.

BANQUE INTERNATIONALE
A LUXEMBOURG
Societe Anonyme
Fiscal Agent

READY MIXED CONCRETE LIMITED
(RMC Group PLC)
7¾% Bonds 1987 FF 80,000,000

Notice is hereby given to Bondholders of the above Loan that the amount *redeemable* on October 25 1985, i.e. FF 8,000,000 was bought in the market.
Amount outstanding: FF 21,600,000.
Trustee: *The Law Debenture* Corporation Limited.

Principal Paying Agent
KREDIETBANK
S.A. Luxembourgeoise

Luxembourg
September 16 1985

THE COPENHAGEN COUNTY AUTHORITY
20,000,000 European Units of Account
8¾% 1979/1991 Bonds

Pursuant to the provisions of the Purchase Fund, notice is hereby given to Bondholders that no Bonds have been purchased during the twelve-month period from September 10, 1984, to September 9, 1985.
Amount outstanding: UA 18,175,000.

THE COPENHAGEN COUNTY AUTHORITY
September 16, 1985

Public Notices

INVESTIGATION BY THE MONOPOLIES AND MERGERS COMMISSION
PROPOSED ACQUISITION OF *RICHARD CLAY PLC*
BY
McCORQUODALE PLC

On 22 August 1985 the Secretary of State for Trade and Industry referred to the Monopolies and Mergers Commission for investigation and report under the provisions of the Fair Trading Act 1973 the *proposed acquisition of Richard Clay* PLC by McCorquodale PLC. The Commission are required to report by 21 February 1986.
Any person or organisation wishing to *give information or views* on the proposed acquisition or requiring a copy of the full terms of reference should write as soon as possible to:
The Secretary
Monopolies and Mergers Commission
New Court
48 Carey Street
London WC2A 2JT

Personal

GAMBLER
wishes to hear from any person who claims to have been unfairly barred from any licensed British casino

Write Box F5995
Financial Times
10 Cannon Street
London EC4P 4BY

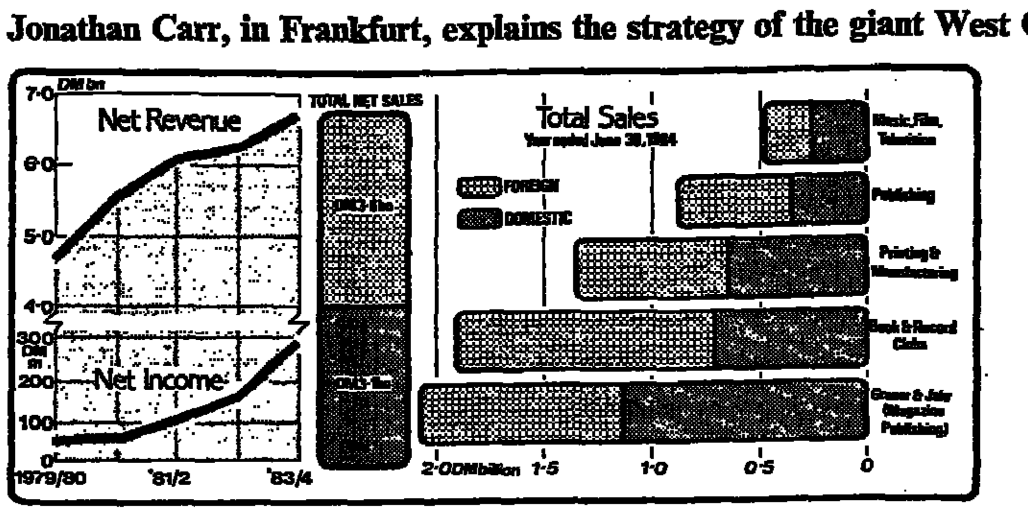
Clubs

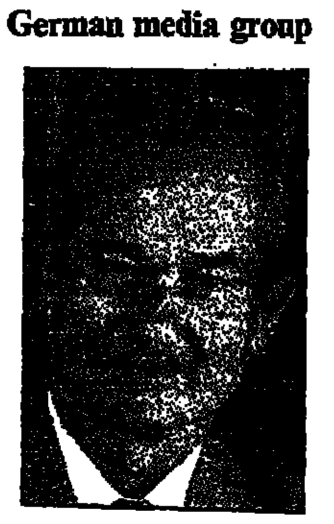
MANAGEMENT

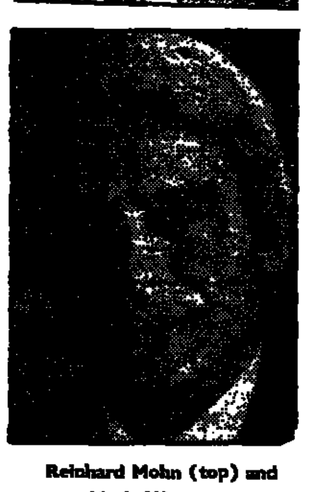
EDITED BY CHRISTOPHER LORENZ

Bertelsmann: why it created its own competition

Jonathan Carr, in Frankfurt, explains the strategy of the giant West German media group







Reinhard Mohn (top) and Mark Woessner

THE SECRET giant of Gütersloh, aged 150 this year, has ended a slimming cure, begun a facelift and is ready to grow again—fast. It already bestrides a lot of the globe (though often in disguise) and is carving out a piece of the action in space.

That may seem a curious way to describe a West German media concern, but then Bertelsmann is a very odd case. It is one of post-war Germany's biggest success stories, rising from bomb rubble to become a group with sales revenue of close on DM 7bn (£1.8bn), and some 32,000 employees in more than a score of countries.

That makes Bertelsmann easily the biggest European media concern (with, for example, nearly three times the turnover of the Springer group) and one of the largest in the world.

Yet Bertelsmann is still run out of the country town of Gütersloh, in East Westphalia, where it was founded as a printer of hymnals and prayer books in 1835. Its group companies such as Bantam Books of the U.S. or Gruner & Jahr of Germany (publisher of Stern magazine) tend to be better known than the parent concern itself.

Moreover, no less than 89.3 per cent of Bertelsmann's common stock is held by Herr Reinhard Mohn, the supervisory board chairman, and his family. The rest of the shares are in the hands of the Hamburg publisher, Dr Gerd Bucerius.

Mohn is one of the outstanding entrepreneurs of postwar Germany, being the architect of Bertelsmann's growth in the past 40 years. Yet his name (like that of his company) is far less well known abroad than, say, Springer or Grundig. That relative lack of fame does not bother him, rather the reverse. A fifth-generation member of the founding family (his grandfather married founder Carl Bertelsmann's granddaughter) he lives simply, hates talking about himself and normally takes lunch with office staff in the canteen.

Applying his own iron rule, he stepped down as chief executive at the age of 60 (in 1981) and plans to turn over most of his company stock on his death to the Bertelsmann foundation, which supports library, research and teaching work and the like.

It is easy enough to chart Bertelsmann's heady expansion under Mohn; the foundation of book and record clubs in the 1950s which today have around 16m members worldwide; the push abroad in the 1960s (not least because of cartel difficulties at home) and the stake in Gruner and Jahr which now accounts for nearly one-third of group sales; the explosion of growth in the 1970s which carried the concern from sales revenue of less than DM 700m a year to almost DM 5bn.

Behind this was a tremendous internal dynamic which Mohn produced at Bertelsmann by phasing out the patriarchal way the company had been run, by decentralising decision-making and motivating employees down to factory floor level.

He introduced dozens of semi-autonomous "profit centres," encouraging a spirit of competition within the group itself; he brought in a company charter pledging generous social benefits and a profit-sharing scheme; and he turned Bertelsmann into an Aktiengesellschaft (joint stock company) — preparing for the day, still a long way off, when the concern might "go public."

Bertelsmann is, in fact, preparing to have its Genusscheine (profit sharing certificates) traded on the over-the-counter market, but that is still a far cry from an official stock exchange listing.

Mohn is blunt about why he did all that. True, he inherited a family tradition of social responsibility (Carl Bertelsmann's father was a Lutheran pastor). But that apart, he was convinced that the better employees were treated, the more they were kept informed and given responsibility as "little entrepreneurs," the more efficient — and profitable — the company would be.

Mohn's sounds like a hard act to follow, and in one obvious way that is true. Manfred Fischer, who took over as chief executive from Mohn, left after little more than a year following discord with his predecessor on company strategy.

But there is a deeper problem at Bertelsmann than that of stepping into the shoes of a man who has become a legend in his lifetime. It has to do with the paradox of the "secret giant."

For all its model character internally (from which quite a lot of German companies could learn), Bertelsmann has tended to project an image externally either diffuse or, occasionally, "ugly."

The dynamic growth of the bookclubs brought a reputation for tough "foot in the door" salesmanship which Bertelsmann has not fully shaken off.

In the 1960s Bertelsmann diversified into activities from chicken farms to cinema chains, so that it became hard for outsiders (and even some insiders) to tell where the real thrust of the group lay.

Mohn saw the danger, chopped fringe activities in the 1970s and concentrated Bertelsmann on media alone — albeit a wide field in itself. But the sheer momentum of his decentralised "every manager his own entrepreneur" approach still brought problems of diversification and overlap (several eager Bertelsmann divisions competing for the same customer order, for example).

The boom found its natural end with the second oil crisis at the end of the 1970s, which hit consumer spending generally and the record and book sectors not least. In addition Bertelsmann had a bad flop with its unsuccessful bid to penetrate the U.S. market with Gruner and Jahr's glossy geographic magazine "Geo."

Consolidation and soul-searching followed—but the basic problem remained. How could Bertelsmann concentrate its efforts and improve its image, without losing that prized dynamism based on de-centralisation?

The man who may have found the answer to this almost insoluble conundrum is the current chief executive, Mark Woessner, who—at age 46—has had the top job for just over two years. Woessner is the last person to try to remove the decentralised structure and rule by edict from the top. He benefitted from it himself, rising to head the printing division Mohndruck with several thousand workers while still in his early 30s.

But, that said, he is insisting on two elements which have not been uppermost at Bertelsmann in the past—co-ordination and quality. The key to the first lies in a simplified company command structure, creating three broad product groups which bring together all Bertelsmann's varied media activities. The first group "Book" includes the clubs, publishing houses and printing operations; the second, "electronic media," covers music, video, TV and so on; the third is Gruner & Jahr with its roughly 30 magazines worldwide.

Divisional managers will still have plenty of scope to display "entrepreneurial" initiative, but they will be subject to scrutiny through a clearer and more closely co-ordinated chain of command.

The "three product groups" plan is a matter of psychology as well as organisation, impressing on those in the company the scope—and the limits—of Bertelsmann's activities. The "quality" formula is linked to this—namely to underline that Bertelsmann is not (or is no longer) a conglomerate out above all to boost sales.

That does not mean Bertelsmann does not intend to grow; it does, and perhaps eventually faster than before. But it aims to do so with top products in new sectors (electronic media) and higher quality in the more traditional areas.

Yet, even with closer co-ordination Bertelsmann will still be subject to occasional shocks from some corner of its far-flung empire—like the "Hitler diaries" scandal at Stern. The latter was a nasty blow to Bertelsmann, since Stern (more than 1.4m copies circulated weekly) is the locomotive which pulls Gruner & Jahr, which in turn gives a major impetus to the group.

And even with its drive "in search of excellence" Bertelsmann's old "hard sell" image is going to take some living down. Without being "elitist," it must also be asked how far the "quality" image can be made to stick alongside the "media for the millions" reputation.

That said, Woessner has at least three factors which favour him. First, Bertelsmann is financially very sound after its years of consolidation, strengthening its capital base and raising net profit to DM 289m in 1983-84 (4.3 per cent of turnover) — profits are now believed to have increased to around the DM 350m mark.

That means Woessner will have no problem realising his ambitious investment plans. These envisage spending around DM 800m annually over the next three years—as well as ploughing another DM 1bn or so into the U.S. if suitable opportunities arise there. It has profitable printing and publishing offshoots in the U.S. and is looking for more. It has also recently concluded a deal with RCA Corp, pooling worldwide record, music publishing and music video interests.

Woessner has also what looks like a strong team on the executive board. It includes Manfred Lahnstein, the former West German finance minister, who is in charge of developing the "new media" sector. This growing division, although its share of turnover (with music) is currently only around 10 per cent—compared with 50 per cent for books and 40 per cent for magazines. Very roughly, the percentage breakdown in a decade could be 20 (music and new media), 40, 40.

In the most recent development here, RTL Plus of Luxembourg, in which Bertelsmann has a 40 per cent stake, has started to make private TV broadcasts via ECS satellite.

Last but not least, Woessner seems to be able to develop his own strategy while retaining the support—and respect—of Mohn. And even in the new era at Gütersloh, that is an advantage definitely not to be underrated.

Management abstracts

W. T. Page in The Journal of Business Communication (U.S.), Spring 1985 (10½ pages)

Culls from specialist literature various theories to account for the nervousness experienced by oral presenters; finds that there are two types of presenter —phobics (who suffer disabling fears), and normal (who merely experience "butterflies" and other non-disabling symptoms); contends that, although more can be achieved for the phobic, some improvement is also attainable by normal subjects; provides a list of recommendations, including relaxation and modelling, intended to reduce nervousness by increasing the subject's control over mind, body, and the external environment.

Can loyalty be locked up? J. Tarrant in Across the Board (U.S.), May 1985 (5 pages)

Looks at the disadvantages, to both employers and young high-flying managers, of the "golden handcuffs" concept of binding an individual to the organisation by deferred cash bonuses, deferred stock benefits, more generous retirement plans or company low-interest loans. Sees difficulties in making service contracts stick when people want to leave, and argues that young managers, when offered a golden handcuff agreement, should insist on a realistic career plan.

The characteristics of European export marketing staff. F. W. Turnbull and G. F. Welham in European Journal of Marketing (UK), Vol 19 No 2 (10½ pages)

Discusses the results of a survey of the educational, work experience, and foreign language characteristics of a sample of German, French, Italian, Swedish, and UK export marketing executives; some conclusions emerge—an emphasis on technical, rather than commercial, skills and product-based experience in UK and France, and the generally-limited foreign language ability (except in English) of all groups (basically, only the Swedes can speak Swedish). Examines implications for training export marketing staff.

Auditor switches by failing firms. K. B. Schwartz and K. Menon in The Accounting Review (U.S.), April 1985 (14 pages)

Examines the reasons why companies switch auditors; finds no evidence that audit qualifications or management changes cause a switch, but does find that failing organisations are more prone to change than the healthier ones.

Office environment: a medical view. T. Peters in bit (Germany), April 1985 (3 pages, in German, English version available)

Points out that for best working conditions (with their perceived advantages to employee and employer alike), two-way change is needed: equipment and facilities must be adapted to workers' needs, but workers must also adapt to the environment occasioned by equipment and facilities. Sees ignorance as the greatest enemy of improvement; draws attention to how little use is made in practice of facilities readily available (e.g. adjustable height tables and seating), and points to the virtual impossibility of developing standard solutions for "mixed" situations (e.g. rooms in which information comes from screens and paper).

Successful new product advertising. D. Olsen in Admap (UK), June 1985 (5 pages)

Describes advertising research work done in the U.S. on classifying commercials according to their success in stimulating consumer product trial, by correlating them against a copy-testing system using seven basic measures, subsequently refined to two—relevance and stimulation. Offers hints for making successful commercials.

Reporting intangibles. J. Cassels in Accountancy (UK), June 1985 (3 pages)

The Director-General of the National Economic Development office makes two pleas to accountants: one to collate and disclose information about technical and human investments in publishing accounts, the other for supplying simplified accounts to employees.

Distress and disease among professional women. D. L. Nelson and J. C. Quick in Academy of Management Review (U.S.), April 1985 (13 pages)

Examines the literature on women and stress; highlights individual (discrimination, isolation), and common (job/interpersonal demands), stressors which affect psychological and physical well-being when competing in male-dominated environments. Argues that distress and disease are not inevitable if stress factors are properly recognised and preventive measures taken; suggests strong mentor relationships as well as measures to increase self-confidence and self-awareness which can go a long way to help to combat stress.

These abstracts are condensed from the abstracting journals published by Anbar Management Publications. Licensed copies of the original articles may be obtained at £4 each (including VAT and p+p; cash with order) from Anbar, PO Box 23, Wembley HA9 8DJ.

TECHNOLOGY

EDITED BY ALAN CANE

Packaged cure for the City's problems

WITH the Big Bang which will transform the City only a year away, there is growing apprehension among new and old market-making firms that they may not come up to scratch electronically.

Companies like Tandem, the U.S. manufacturer of "non-stop' computers, are not helping them to sleep more easily at nights: "After the Big Bang, will your computer systems cope?" says its advertising plastered all over Underground stations—adding, naturally enough, that Tandem's can.

"Many City firms are flying blind towards the Big Bang," according to Mr Victor Strauss, director of group finance for C & P Technology, a U.S. company specialising in the design of electronic dealing rooms.

"We had a similar situation in the U.S. These firms do not know the dangers of owning the bad position."

Now Tandem, C & P and Admiral, a UK-based software house, have joined force to offer house, have joined forces to offer what they claim is a completely integrated solution to the financial community's needs. A complete Big Bang package, in effect.

They will design the dealing rooms, install computers and telecommunications equipment and provide software specially designed for the securities business.

What makes this joint venture remarkable is the acknowledged quality of the three companies involved.

Tandem, the pioneer of computers which "never stop," is almost an automatic second choice to IBM in many banks and finance houses; C & P has designed and built dealing rooms for Chase Manhattan Bank, Lehman Brothers, and Hoare Govett. Much of Admiral's work has been for the Ministry of Defence where it has full security clearance.

Admiral is providing software based on products from a U.S. company, Securities Industry Software Corporation, based in Denver.

According to the three companies, their integrated approach automates the execution of a bargain across the spectrum from dealer information to final accounting.

ALAN CANE

Uranium enrichment: why the U.S. is turning to lasers

The battle between champions of rival enrichment methods is hotting up, reports David Fishlock

INTERNATIONAL rivalry over the enrichment of uranium for nuclear fuel took a new twist this summer when the U.S. Department of Energy announced that it was abandoning two decades of research on the gas centrifuge in favour of a newer, laser method of separating uranium isotopes. It is called AVLIS—atomic vapour laser isotope separation.

In London this month, Mr John Longenecker, the senior civil servant responsible for U.S. uranium enrichment operations, told the Uranium Institute's symposium: "We have no lingering doubts that AVLIS technology is the uranium enrichment technology of the future."

Mr Longenecker, a nuclear engineer, claimed that at its Lawrence Livermore National Laboratory in California, the U.S. Department of Energy has the world's most advanced AVLIS technology. It is 1m times more selective in separating fissile uranium—235 atoms from uranium—238 than either the gas centrifuge or gas diffusion, the two commercial processes used in the nuclear industry today.

Present development plans for AVLIS call for a full-scale demonstration of the process at Lawrence Livermore late in 1987. The demonstration facility is called Mars and it has a full design capacity for 1,000 tonnes of enrichment a year (equivalent to 1m separative work units, the unit in which enrichment is measured).

Does the choice of AVLIS and the abandoning of the gas centrifuge by the U.S. Government—the world's biggest operator of uranium enrichment—imply that Britain, West Germany and the Netherlands were wrong to invest in the gas centrifuge? The French also say they plan to replace their present gas diffusion enrichment plant with AVLIS.

A tripartite collaboration since 1970 between engineering companies in Britain, West Germany and the Netherlands, under the aegis of Urenco, has built up an international order book for enrichment worth about £2.6bn. But the gas centrifuge technologies of Urenco and the U.S. Department of Energy, although identical in principle, differ in practice to a degree which is only now becoming clear.

Both employ ultra-centrifugation, in which a gaseous form of uranium is spun at very high speeds—as high as material strengths will allow for the size of the machine. Under such conditions, the slightly heavier atoms of uranium-238 tend to migrate to the wall of the centrifuge, leaving gas enriched in the lighter, fissile isotope to be scooped from its core.

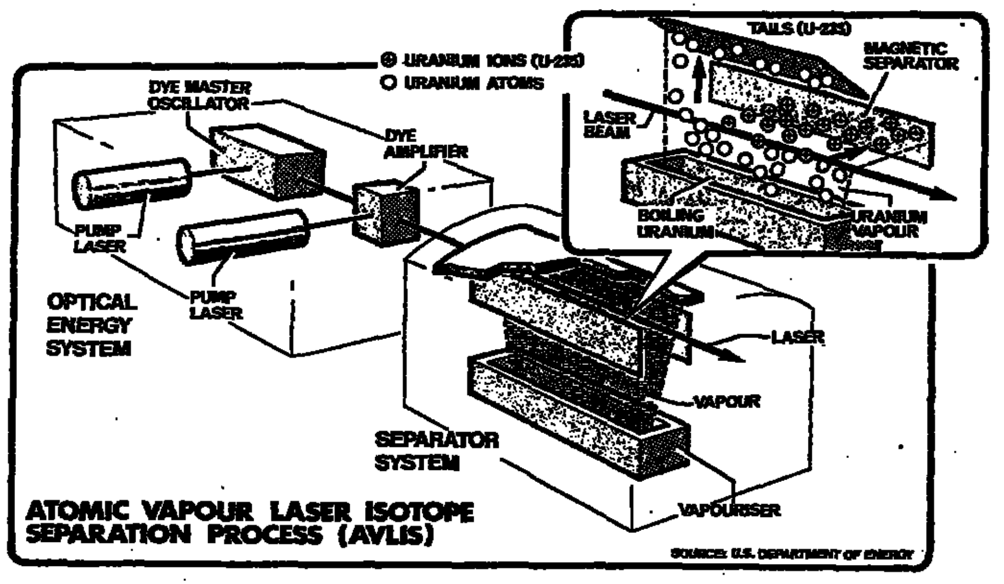
Urenco invested in large numbers of small centrifuges; the U.S. invested in fewer, far bigger machines. Urenco adopted a policy of no maintenance from the start, but makes its machines so well that very few, in fact, fail.

The U.S. accepted from the outset that its "giant redwoods," as the huge machines are known, would fail, but planned to restore them to service.

The frequency of failure seems to have beaten the big U.S. centrifuges. It is even reported that one spinning centrifuge horrified staff by "walking" from its stand and travelling upright through the centrifuge hall, before coming to rest against a wall without causing damage.

Although the U.S. Government was already well advanced with a commercial installation of its gas centrifuges at Portsmouth, Ohio, it used an even more advanced design, still being tested, for the economic comparison with AVLIS. The advanced gas centrifuge was not expected to be in production before 1987.

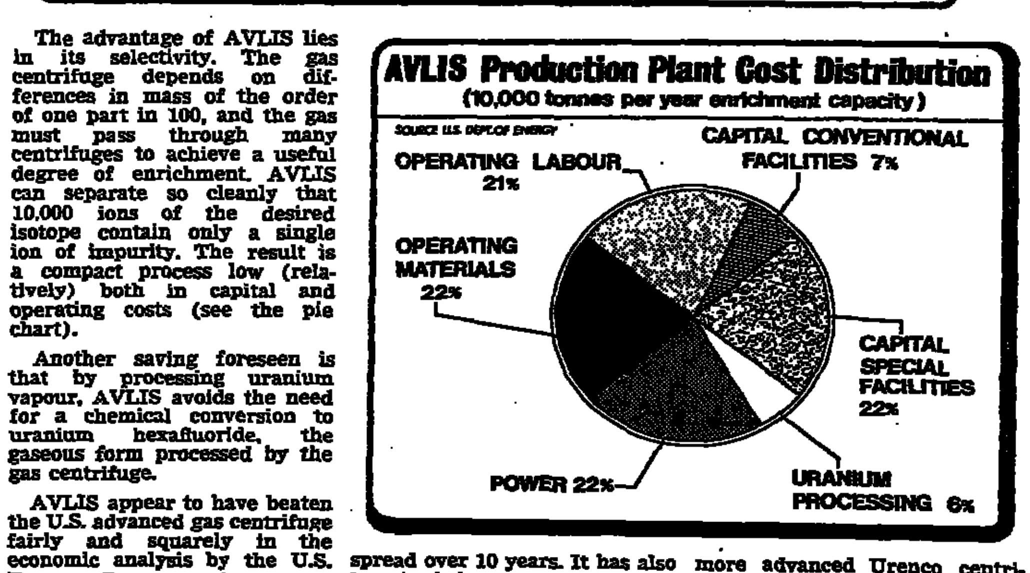
Even so, according to Mr Longenecker, "across the entire range of significant figures of merit, AVLIS was found to have a better potential for lower costs and reliable production than either existing or competing technologies." As a risk for proliferating nuclear weapons, AVLIS was judged no worse than the centrifuge.



The advantage of AVLIS lies in its selectivity. The gas centrifuge depends on differences in mass of the order of one part in 100, and the gas must pass through many centrifuges to achieve a useful degree of enrichment. AVLIS can separate so cleanly that 10,000 ions of the desired isotope contain only a single ion of impurity. The result is a compact process low (relatively) both in capital and operating costs (see the pie chart).

Another saving foreseen is that by processing uranium vapour, AVLIS avoids the need for a chemical conversion to uranium hexafluoride, the gaseous form processed by the gas centrifuge.

AVLIS appear to have beaten the U.S. advanced gas centrifuge fairly and squarely in the economic analysis by the U.S. Energy Department's process evaluation board. Never the less, this board concluded that neither process "appears likely to provide investment returns on a scale that would be judged attractive from a private business perspective."



The evaluation merely concluded that AVLIS would generate returns comparable with the advanced gas centrifuge for signicantly lower cost, and could be used in smaller increments. It was also considered more robust should the economic ground rules change to the disadvantage of enrichment—for example, if the U.S. fails to win enough orders to fill its capacity.

Urenco does not publish accounts, but last year it picked up contracts worth about £450m, among them its first in the U.S. From the start, its policy has been to install the centrifuge capacity it needs to meet its long-term contracts—normally spread over 10 years. It has also benefited from a research programme spread among its member organisations, and the constant appraisal and self-criticism this implies.

British Nuclear Fuels is the UK shareholder in Urenco. It has 500 tonnes of centrifuge capacity in operation at its Capenhurst, Cheshire, enrichment factory. Earlier this month, Mr Con Allday, chief executive of BNFL, announcing record export figures last year, said the main reason was that Urenco was now making major deliveries of enrichment.

Dr Alan Johnson, the BNFL board member responsible for enrichment, says Urenco is now at the third phase of gas centrifuge development since the collaboration began. This is the first truly tripartite design. The first two phases tended to be national designs which incorporated specific features of the other designs.

Dr Johnson foresees a still more advanced Urenco centrifuge to keep the technology competitive with AVLIS.

In 1973, the French launched Eurodif, a multi-national rival to Urenco, based on French gas diffusion technology, the process which the gas centrifuge set out to displace. Gas diffusion is inherently power-hungry, drawing more than 10 times the electricity of Urenco's centrifuges. But the French have the cheapest electricity in Europe from nuclear reactors alongside their plant.

M Jean-Claud Guais, marketing and business development manager of Cogema, the French shareholder in Eurodif, told the Uranium Institute symposium that its 10,800-tonne Tricastin plant would operate at only two-thirds capacity this year, but it would be "not too detrimental to the product's economics." He forecast that it would be nearer 85 per cent capacity next year.

ATOMIC VAPOUR LASER ISOTOPE SEPARATION

THE PHYSICS of atomic vapour laser isotope separation is quite simple. Uranium metal is boiled to create a stream of metal vapour. This vapour is illuminated by a laser, operating at a wavelength chosen to photo-ionise only the atoms of uranium-235 (0.7 per cent of the vapour).

The electrically charged ions of uranium-235 are then separated electromagnetically from the vapour stream and condensed as highly-enriched uranium.

AVLIS employs copper vapour lasers. When U.S. research began in 1973, it used lasers rated at 1.5 watts and the first AVLIS plant designs assumed lasers of 15 watts. Currently, development at Lawrence Livermore uses continuous lasers of 300 watts. The laser beam is recycled by reflectors to make maximum use of the beam. The brilliant green beam pumps a dye amplifier to tune it to precisely the wavelength required to photo-ionise uranium-235 atoms.

The U.S. Department of Energy plans full-scale process demonstrations of AVLIS in 1986-87, and expects to be ready to design a commercial plant by 1989. On this schedule, construction for the first commercial AVLIS factory of 10,000 tonnes a year capacity, could begin in 1994 and be on-stream by 1998.

Present commercial enrichment prices exceed $120 per separative work unit (SWU). U.S. estimates for a 1,000 tonnes-per-year (1m SWU) commercial operation predict a process cost as low as $20-$30 per SWU. Commercial prices of $40 per SWU by 2005 are predicted.

The selectivity of AVLIS might also have a big effect on demand for uranium early in the next century. By recycling existing uranium "tails" to extract the residue of uranium-235, AVLIS could recover enough to meet 10 years of uranium requirements for nuclear fuel.

ITT adds more to the picture

A COLOUR television set featuring a second, postcard-sized picture inset into the top right-hand corner of the screen has been introduced by ITT Europe in West Germany.

The second screen can be used to scan what is being shown on all the other channels or to check the progress of a program being video-recorded off-screen.

It could also be used to show pictures from a remote videocamera—positioned over the front door, for example, or in a child's bedroom.

While the television set functioning as a computer display or videotex terminal, a television programme can be monitored on the inset picture. These pictures can be "frozen" using a special freeze-frame facility. The sets, part of ITT's Digivision range, will cost 20 per cent more than conventional digital television sets.

Alloy aids glass soldering

THE SOLDERING of vacuum-tight joints between glass and glass or between glass and metal—for instance in making hypodermic syringes—is made easier with a low melting point alloy developed by Mining and Chemical Products, of Alperton, North London.

The alloy, coded MCP 120, consists of indium and tin and will soften at 117 deg C, becoming completely liquid at 127 deg C.

In its solid form the alloy has a very low vapour pressure. Under easily controlled conditions, the alloy when liquid wets materials such as glass, mica, glazed ceramics and quartz, allowing a permanent bond to be made. It will also join all metals to which tin or tin-lead solders will bond. More on 01-902 1191.

UK NEWS

Move by JMB to recover £1.5m loan

By Terry Povey

AFTER MONTHS of prevarication, Johnson Matthey Bankers (JMB) has finally made the first move to recover more than £1.5m owed by Ravensbury Investments, the offshore company associated with Mr Michael Hepker in a failed property development plan.

The move against Ravensbury, which if it is pursued could lead to the company being wound up and legal action to recover assets, has to be seen as part of an intensified effort by the JMB management to prepare the bank for resale to the private sector. JMB collapsed last autumn and was taken over by the Bank of England, when it was discovered that bad and doubtful loans totalled more than twice its capital base.

Detailed investigations, plus action to improve security for loans, has led JMB to revise downwards the feared loss by almost £30m to £220m. In cases where some loss is feared, JMB is now seeking to recover what it can, through the courts if necessary.

Realisations and repayments under the new tighter schedules are thought to have reduced the number of loans outstanding by as much as £100m to around £400m. However, the doubtful portion of the loan book is still more than half the total, with almost half this in turn concerning trade financing for Nigeria.

JMB has written to Ravensbury demanding repayment in full of the outstanding £1m loan plus interest within seven days. The bank has made clear that it is willing to go to the courts to recover assets pledged as securities for this loan.

Mr Pat Benson, who as a director of Ravensbury received the letter from the bank, said yesterday: "I am pleased that JMB has taken this step. I have been writing to the bank since the winter asking it to take action quickly for fear that pledged assets would become irrecoverable if there was great delay."

The loan to Ravensbury was negotiated by Mr Hepker, now chairman of the listed Sunnie Clothes, in 1981, to finance the development of a supermarket site in Barry, Glamorgan. That development has never taken place.

Level of wage claims 'unrealistic,' says CBI

BY ROBIN PAULEY

AVERAGE pay claims are at present equivalent to an increase in real wages of around 5 per cent and bear no relation to economic realities, says a report published today by the Confederation of British Industry (CBI).

The level of settlements so far during 1985 has averaged 6.4 per cent, although more than three quarters of the initial claims were for more than 10 per cent and about a third of all claims monitored had asked for more than 15 per cent.

"Most wages claims are simply unrealistic. In 1984-85 the most common claim has been for 10 per cent followed by 15 per cent. Increases between these two figures, with the exception of 12 per cent, have proved relatively unpopular," Mr Clive Brand, CBI researcher, said.

The survey of 1,400 settlements involving 450,000 employees shows that unions have started making claims for much larger real increases in pay during the last year than at any time since the Conservatives came to office in 1979. Rapidly rising unemployment and the spate of closures and redundancies during the 1981–82 recession, coupled with falling inflation, led to a period of claims for small real increases.

However, since the recession, British company profitability has risen sharply and this, coupled with rising rather than falling expectations of higher inflation, has led to larger pay claims in spite of high and rising unemployment levels.

"Currently, the average claim is equivalent to an increase in real wages of about 5 per cent," says Mr Brand. Most claims specifying a pay increase figure are so unrealistic they are ignored. "But there has been a decline in the incidence of percentage claims over the last five years. Unions are increasingly asking for a 'substantial increase' in pay rather than a specified amount."

There is still a wide spread in the level of settlements being achieved, reflecting the differing circumstances of individual companies.

In manufacturing industry about a quarter of settlements are for between 4½ and 5½ per cent. Another quarter are for between 5½ and 6½ per cent. Around 20 per cent of settlements are for between 6½ and 7½ per cent, and a similar proportion settle for higher than 7½ per cent.

Only about 5 per cent of manufacturing industry settlements have involved a cut in the number of hours in the basic working week during the last year. Most of those that did reduce the week cut it from 40 to 39 hours.

In the private services sector the settlements are higher with an average increase in pay of around 7 per cent being recorded in the first eight months of 1985.

Companies involved in the CBI survey reported that the strongest pressure restraining them from large wage rises continued to be an inability to increase prices. This was followed by the level of profits which, although rising, was still reported by some companies to be too low.

Marconi defends torpedoes work

By Andrew Fisher

MARCONI, the defence equipment subsidiary of General Electric of Britain (GEC), has rushed out letters to foreign governments defending its record on torpedoes after critical statements last week by the public accounts committee of the House of Commons.

"It couldn't have come at a worse time," said Mr Keith Watson, vice-chairman of Marconi Underwater Systems. The company is in final negotiation stages of one foreign deal and well advanced with another, each worth some £50m.

The all-party committee said Britain was getting poor value from the £5bn being spent on development and production of three torpedoes – the Tigerfish, Sting Ray and Spearfish – by the mid-1990s.

It said Tigerfish was still not working properly after 25 years of development, the Sting Ray lightweight weapon was not yet in full production, and Spearfish (to replace Tigerfish) was having problems.

Bank admits 'error' in BT share allocation

BY CHARLES BATCHELOR

SINGER & FRIEDLANDER, the merchant bank owned by the Britannia Arrow fund management group, has admitted to making "an error of judgment" in allocating British Telecom shares to its directors and staff.

A committee of the bank's non-executive directors has been studying the allocation of BT shares since a press report a week ago that directors had gained access to shares that were part of an institutional allocation.

In a statement at the weekend Singer said that it had changed its internal rules to prohibit directors and staff from participation in all future placings.

Mr Anthony Solomons, Singer's chief executive, informed the committee that "the internal practices of the bank permitted only participation of those directors and staff who are investment customers in issues such as British Telecom, where the bank's commitment was unduly large."

He acknowledged, however, that "this was an error of judgment and the rules have accordingly been changed."

The committee of non-executive directors said it endorsed Mr Solomons' action. It concluded that the allocation of shares by the bank to private investment clients was in accordance with the requirements governing the BT issue.

It also said that "the directors and staff of the bank to whom shares were allocated acted honestly and in good faith."

The bank is sending a report of the circumstances to the Bank of England and the Department of Trade and Industry.

Singer said that no director of Britannia Arrow Holdings, other than Mr Solomons, had participated in any placing of British Telecom shares or was aware of the matter before September 6.

Norwest Holst calls off flotation

MR RAYMOND SLATER, owner of Norwest Holst, the construction and property group, has called off plans to return the company to the stock market at the end of this month by means of a flotation expected to value it at more than £60m.

Norwest may now consider offering itself for sale to an outside bidder or carrying out a management buy-out as a prelude to seeking a stock market listing next year, the company said.

"We were ready to press the button to print the prospectuses when the sale was called off," a spokesman said. "Everything had been audited ready for the float."

The company was for many years listed on the Stock Exchange. It lost its quotation in 1980 after Mr Slater and Mr John Lilley, his partner, won control after an eight-year battle with the founding Le Mare family.

The decision to postpone the re-listing arises from a dispute over the agreement under which Mr Slater bought out Mr Lilley to take sole control of the company.

Mr Lilley is owed £8.8m in the form of loan stock scheduled for repayment on June 1, 1985 though this sum is partly offset by £3.12m owed by Mr Lilley to the company.

Mr Philip Newbould, chairman since Mr Slater stepped down last March, is due to meet Lloyds Merchant Bank and stockbrokers Hoare Govett today to discuss how to resolve the uncertainty over the company's future.

□ MR CHARLES AULD, a director of Dalgety UK and chief executive of its Spillers Foods subsidiary, has resigned. Dalgety UK is one of the five regional companies of Dalgety, the international agricultural trading group. Mr Auld, a marketing specialist, was responsible for Spillers' petfoods business.

Mr David Donne, Dalgety chairman, said Mr Auld would become managing director of the grocery division of Nabisco, the UK arm of the U.S. cereal group. He could not confirm reports that Mr Auld had left because he was unhappy about the £120m acquisition of Gill & Duffus, the commodity trader.

Dalgety will today announce its results for the year to June 1985. In the six months to December 1984 it made a pre-tax profit of £33m on sales of £2bn.

UK NEWS

British economy trails major trading partners

BY JOHN LLOYD, INDUSTRIAL EDITOR

BRITAIN'S industrial performance continues to show little improvement relative to those of its main trading partners – although labour costs have been relatively well contained, and productivity has risen faster than in previous business cycles.

Profitability, still lower than in Japan, West Germany, the U.S. and France, rose in the early 1980s from around 6 to 7 per cent, while the rate in other countries, except West Germany, fell.

The latest edition of "Britain's Industrial Performance, published by the National Economic Development Office (Nedo), displays a familiar picture of an economy trailing behind most other advanced societies by most measurements – though there are signs that the UK's competitive edge is sharpening in some areas.

Mr John Cassells, director general of the National Economic Development Council, part of Nedo, says in his foreword that the picture is "one of contrast," with relatively slow output growth and a deep trough in manufacturing in the early 1980s.

"From that low point, output at home has been increasing steadily for four consecutive years, though that has not prevented unemployment from rising to historically high levels. Productivity has risen faster through the present cycle than it did in the previous one. Inflation has been brought down from double figures to an underlying rate close to the post-war average up to the first oil crisis. There is an increasing awareness of the problems of innovation, research, education, training, design and marketing, but there is still much to be done."

Cost competitiveness with other trading partners has continued to improve since 1980, when relative costs began to fall after six years of rapid growth – especially rapid since exchange rate appreciation coupled with sharp rises in relative labour costs since 1978.

Productivity growth has improved sharply in the early 1980s, relative to France, Italy and the U.S. although not West Germany and Japan. Unit labour costs also improved in the 1980's relative to France and Italy – but not the U.S. Japan and West Germany, and they remain higher than in all countries except Italy.

Total factor productivity, which includes the productivity growth of all factors of production as physical, human, R & D capital and labour, grew on average just below 1 per cent in the decade 1974 to 1984. U.S.

NEDC, "British Industrial Performance," Nedo Books, Millbank Tower, London SW1P 4QX, £5.

COMPARISON OF UK PERFORMANCE

PERCENTAGE CHANGE ON PREVIOUS YEAR		UK	W GERMANY	ITALY	FRANCE	U.S.	JAPAN
Earnings: Average money hourly earnings in manuf. Home currency	1974	17	10	22	19	8	26
	1979	16	6	19	13	8	7
	1984	8	3	11	7	5	4
Labour productivity: Growth of output/person hour in manufacturing	1974	−1.8	1.1	3.3	2.3	−3.8	−0.9
	1979	0.6	4.1	6.7	4.4	0.0	8.4
	1984	3.4	4.6	3.8	3.7	2.6	9.8

INDICES (1974 = 100)		UK	W GERMANY	ITALY	FRANCE	U.S.	JAPAN
Labour costs per unit of output in manufacturing	1974	100	100	100	100	100	100
	1979	215	122	213	159	136	106
	1984	328	141	411	247	175	100
Exchange rate to sterling	1974	100	100	100	100	100	100
	1979	100	64	116	80	91	68
	1984	100	83	154	103	57	46

		AGAINST U.S.	AGAINST EUROPE	ALL BUT U.S.	ALL WITH U.S.
Cost competitiveness: in terms of relative unit labour costs in manufacturing	1974	100	100	100	100
	1979	140	116	110	122
	1984	101	136	136	126

		RELATIVE UNIT LABOUR COSTS	RELATIVE LABOUR COSTS	RELATIVE PRODUCTIVITY	STERLING EFFECTIVE EXCHANGE RATE
Cost contributions: Sources of changes in UK competiveness in manufacturing	1974	1.00	1.00	1.00	1.00
	1979	1.21	1.32	0.87	0.81
	1984	1.32	1.63	0.90	0.73

Source: NEDC

Liberal activists to face Owen

By Peter Riddell, Political Editor

THE LIBERAL Party leadership will come under pressure from local activists at the party assembly in Dundee this week not to make further concessions to the views of Dr David Owen, the Social Democrat leader, on nuclear defence and the social market economy.

A number of party activists have become worried following the shift by Mr Paddy Ashdown, the Liberal MP and previous leader of the anti-cruise missile group. Last week at the Social Democratic Party (SDP) conference in Torquay, Mr Ashdown said it would be wrong to call for the removal of existing cruise missiles from the UK in view of the resumption of the Geneva talks.

The cruise issue is not on the agenda of the assembly which formally starts tomorrow, but there may be attempts by the substantial anti-cruise group to secure some reaffirmation of last year's resolution totally opposing the deployment of cruise.

According to a BBC survey about 76 per cent of SDP activists are willing to keep cruise but only 37 per cent of Liberals.

During a joint interview for the programme, both Mr David Steel, the Liberal leader, and Dr Owen said it would be wrong to make decisions too early on areas where there are differences since the international position was constantly changing.

Dr Owen's stress on the role of market forces has come in for criticism from a number of leading Liberals. In a discussion pamphlet published today Mr Leighton Andrews, vice-chairman of the party's standing committee on policy, questions Dr Owen's emphasis on market forces as opposed to the need for state intervention to protect the rights of the consumer.

The desire of many Liberals for closer links with the SDP surfaced last night with a call by Mr Paul Tyler, the party chairman, for the two Alliance parties to merge their conferences next year.

How ballots cut the impact of strikes

BY DAVID THOMAS

NEXT WEEK sees a remarkable first anniversary. The pre-strike ballot provision of the 1984 Trades Union Act will have been in force for exactly one year.

Scarcely a week goes by without news of a union holding a secret ballot of its members before industrial action, as the Act requires. Just as 1984 was marked by the lack of a ballot during the coal strike, 1985 has become the year of the ballot.

Mr Tom King, Employment Secretary until the recent reshuffle, gave the new provision "part of the credit" for the small number of strikes in the first half of the year – a view which is still held by the Department of Employment.

The Trades Union Congress (TUC) agrees that employers have been quick to invoke the new law. Use of the ballot provision has been a "particularly notable" feature of the recent increase in legal action, against unions, according to a report prepared for this year's TUC congress.

The conciliation service, Acas, knows of about 50 strike ballots held since the new law was passed, 15 of them after employers had secured injunctions.

They have played a decisive role in many key disputes, such as the collapse of the Austin Rover and civil service pay disputes. Within the past month railway guards and telecom engineers have overturned recommendations from their unions for industrial action in a secret ballot.

Many unions have a long tradition of consulting their members by secret ballots, with the miners (until the recent strike) the most famous. But the Act has forced unions, which relied on a show of hands at workplace meetings or ill-attended branches, to change their ways.

The Austin Rover dispute last November proved a turning point. The Transport and General Workers Union refused to ballot its members and was fined £200,000 for its pains.

Other unions learned the lesson. Most have now balloted under the terms of the act. Many are taking advice before writing their ballot paper to ensure they are within the law.

Yet pre-strike ballots are a "double-edged sword" as one observer close to the industrial scene puts it. After all, unions have won most of the ballots known to Acas; 37 going in their favour with only 12 against.

Workers are particularly likely to back their union if an employer has taken out an injunction. The vote then becomes a loyalty test.

A yes vote in a ballot minimises the chances of splits during a dispute. As the white collar union, Apex wrote to the TUC earlier this year: "The majority decision in a ballot compels the weaker brethren among our membership to participate in the dispute."

Usually events do not get that far. A successful vote is a bargaining counter for the union.

BASE LENDING RATES

A.B.N. Bank	11½%	Heritable & Gen. Trust	11½%
Allied Dunbar & Co.	11½%	■ Hill Samuel	§11½%
Allied Irish Bank	11½%	C. Hoare & Co.	11½%
American Express Bk.	11½%	Hongkong & Shanghai	11½%
Henry Ansbacher	11½%	Johnson Matthey Bkrs.	11½%
Amro Bank	11½%	Knowsley & Co. Ltd.	12 %
Associates Cap. Corp	12 %	Lloyds Bank	11½%
Banco de Bilbao	11½%	Edward Manson & Co.	12½%
Bank Hapoalim	11½%	Meghraj & Sons Ltd.	11½%
BCCI	11½%	Midland Bank	11½%
Bank of Ireland	11½%	■ Morgan Grenfell	11½%
Bank of Cyprus	11½%	Mount Credit Corp. Ltd.	11½%
Bank of India	11½%	National Bk. of Kuwait	11½%
Bank of Scotland	11½%	National Girobank	11½%
Banque Belge Ltd.	11½%	National Westminster	11½%
Barclays Bank	11½%	Northern Bank Ltd.	11½%
Beneficial Trust Ltd.	12½%	Norwich Gen. Trust	11½%
Brit. Bank of Mid. East	11½%	People's Trust	12½%
■ Brown Shipley	11½%	PK Finans. Intl. (UK)	12 %
CL Bank Nederland	11½%	Provincial Trust Ltd.	12½%
Canada Permanent	11½%	R. Raphael & Sons	11½%
Cayzer Ltd.	11½%	Roxburghe Guarantee	12 %
Cedar Holdings	12 %	Royal Bank of Scotland	11½%
■ Charterhouse Japhet	11½%	Royal Trust Co. Canada	11½%
Choulartons**		■ J. Henry Schroder Wagg	11½%
Citibank NA	11½%	Standard Chartered	‖11½%
Citibank Savings	¶12¼%	TCB	11½%
City Merchants Bank	11½%	Trustee Savings Bank	11½%
Clydesdale Bank	11½%	United Bank of Kuwait	11½%
C. E. Coates & Co. Ltd.	12 %	United Mizrahi Bank	11½%
Comm. Bk. N. East	11½%	Westpac Banking Corp.	11½%
Consolidated Credits	11½%	Whiteaway Laidlaw	12 %
Continental Trust Ltd.	11½%	Williams & Glyns	11½%
Co-operative Bank	11½%	Yorkshire Bank	11½%
The Cyprus Popular Bk.	11½%		
Duncan Lawrie	11½%		
E. T. Trust	12 %		
Exeter Trust Ltd.	12 %		
Financial & Gen. Sec.	11½%		
First Nat. Fin. Corp.	13 %		
First Nat. Secs. Ltd.	13 %		
■ Robert Fleming & Co.	11½%		
Robert Fraser & Ptns.	12½%		
Grindlays Bank	‡11½%		
■ Guinness Mahon	11½%		
■ Hambros Bank	11½%		

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* 7-day deposits 8.00%. 1 month 8.50%. Top Tier—£2,500+ at 3 months notice 11.25%. At call when £10,000+ remains deposited.
‡ Call deposits £1,000 and over 8% gross.
‖ 21-day deposits over £1,000 9.25%.
¶ Mortgage base rate.
** See Provincial Trust Ltd.
§ Demand deposits 8%.

UK NEWS

Honda moves to ease dealers' policy fears

BY JOHN GRIFFITHS

HONDA (UK) is expected to meet its main dealer representatives tomorrow, in an attempt to reassure them that there will be no important policy changes as a result of the abrupt departure of Mr Gerald Davison, its senior UK director.

The move by the wholly Honda-owned car and motor cycle importers, follows a telexed protest over Mr Davison's departure to Honda's president Mr Tadashi Kume, by the heads of the British car and motor cycle dealer councils.

Mr Davison's decision to leave Honda after 17 years has sent a wave of concern through the 160 car and 600 motor cycle dealers, which are represented by the councils.

The statement from Honda at the time of his leaving two weeks ago said only that it was a result of a disagreement over policy at board level. Mr Davison is bound by the terms of a service agreement and has refused all comment on his reasons for leaving.

Mr Toshio Nagai, Honda UK's latest managing director – past practice has been for a Japanese managing director to spend three years in the post – has already sent a letter to dealers offering assurances that there will be no "fundamental" changes.

It can be expected that tomorrow's meeting will produce very close questioning on precisely how Honda views its UK operations in the next few years in the light of Mr Davison's departure. Dealer concern arises in several ways.

Three years ago deep distrust pervaded both car and motor cycle networks. On the car side there were widespread protests at special deals being offered to favoured dealers, against the background of cars being in short supply. Although demand is much higher, Honda can import only about 19,000 cars a year under the Anglo-Japanese "gentlemen's agreement" which restricts Japanese cars entering the UK market.

In the motor cycle sector, already suffering from a disastrous decline in total UK sales (they are expected to be 120,000 this year against 315,000 in 1980), there were similar protests.

These were compounded by many new dealers being allowed to set up, often in close proximity to existing outlets and a "leakage" of machines which Honda claimed it was powerless to prevent to unfranchised dealers. These machines were often sold on a sale-or-return basis at less than other dealers were buying them from Honda.

The situation was embarrassing for Honda, which by then was forging closer collaborative ties with BL's Austin Rover car division and following a policy of moving its cars up market into the executive sector. In the management shake-out that followed, Mr Davison effectively took charge of the UK operations.

Since that time he is credited by Honda's motor cycle dealers and the motor cycle trade in general as having led a return to orderly marketing. On the car side, he is personally widely viewed as having instilled sufficient trust for many dealers to have begun making the large investments in new facilities needed to meet Honda's ambition to rank alongside BMW, Mercedes and Audi in the European car market.

Nearly 40 dealers are at present *investing up to £250,000 each to prepare for the stream of new executive models soon to arrive from Japan* as well as the HX Honda's version of the executive saloon developed jointly with Austin Rover. This is being built in Britain and is not subject to sales restrictions. In addition, Austin Rover is also expected to start building other Honda models on its under-utilised capacity starting late next year.

"The change attitude is 100 per cent due to Davison," Mr Bill Smith, *chairman of the National Motor* Cycle Committee, said at the weekend. Although the reasons for his going are the subject of wide speculation, the common concern is that *"Honda will try to get into the numbers game."*

Although unit sales are at present restricted, Honda cars are a very profitable business. A recent business car survey concluded that average discounts of no more than 1 per cent are available on Hondas compared with more than 10 per cent on most volume cars, with even some BMWs being discounted by 7 per cent or more.

With the addition of HX and the 100,000 other Hondas which Austin Rover – although not so far – has indicated could be built on Austin Rover production lines, the concern of dealers is that they could become embroiled in the discounting and other incentives which have sharply reduced the profits of volume car dealers.

Two other concerns are being expressed. One is that Honda might seek some form of distribution and marketing tie-up with Austin Rover or that it might seek other alternative outlets such as hypermarket chains.

Mr Nagai is expected to try to ease concern in all these areas tomorrow.

Tories must 'widen appeal or risk defeat at election'

BY PETER RIDDELL, POLITICAL EDITOR

THE UK Government will have to widen its appeal to the electorate and tackle unemployment with greater urgency if it is to avoid losing the next general election, Mr Francis Pym, a former Foreign Secretary, warns in his strongest attack so far on the party leadership.

Francis Pym: "unemployment must be tackled with urgency"

Renewed criticism by Mr Pym, the leader of the Conservative Centre Forward group of MPs, comes in a revised and updated version of his book, The Politics of Consent, which is due to be published before the Conservative Party conference next month.

Its significance is that it appears at a time when many Tory MPs are privately critical of Mrs Margaret Thatcher, the Prime Minister, for her handling of the recent ministerial reshuffle and for her remarks about "moaning minnies."

Moreover, a number of Mr Pym's proposals, including the shelving of legislation for the reform of rates (local property taxes) and pensions until after an election, will be supported by a wide range of Tory MPs.

This unease is mainly likely to surface at fringe meetings at the Conservative conference rather than in the main debates.

Mr Pym accuses the leadership of promoting "narrow-mindedness and intolerance" in its attitude to internal debate. At the moment, he says, "the only options for a Conservative MP are to be praised as an echo, to be castigated as a rebel, or to say nothing."

In time, he hopes, "the discarded notion that other people might have a valid point of view will re-emerge. In the meantime, my concern is that the flag of traditional Conservatism is kept flying."

The main priority now, Mr Pym argues, must be to take decisive action to combat unemployment. This should involve greater public investment in capital projects and a comprehensive regional policy. The total extra cost of £4bn a year should be financed from the proceeds of the sale of public assets rather than the Government's preference for using this money to fund tax cuts.

The Government is hoping to avoid political rows of the kind mentioned by Mr Pym through an increased role for Mr Norman Tebbit, the new Conservative Party chairman. He will discuss the presentation of policies with ministers before they go to Cabinet in an effort to prevent disagreements like those over student grants and top salaries.

This "trouble-shooter" role reflects Mrs Thatcher's high opinion of Mr Tebbit

Business schools offered help to break free from state system

BY MICHAEL DIXON, EDUCATION CORRESPONDENT

SEVERAL British business schools *may cut themselves free from the* state-funded education system following an offer by Sir Keith Joseph, Education Secretary, to help them to go private.

He has told the schools' heads he would like to hear "from any business school which may be attracted to becoming independent of public funds and which is prepared to consider the conditions under which it would be feasible to achieve this objective."

Sir Keith's invitation was stimulated by arguments in favour of privatisation put forward by Professors Brian Griffiths and Hugh Murray, of the City University Business School, in a booklet published by the *Institute of Economic Affairs* in June. Professor Griffiths is soon to join the Prime Minister's team of policy advisers.

The booklet said the state-financed university system had proved "particularly ill suited" to *providing the sort of management* education wanted by companies and individual executives, especially in industry.

The Education Secretary has now *told the heads of the schools* and the vice-chancellors of the universities to which they are linked that he is "sympathetic . . . with the proposition that business schools should rely wholly, or to a much larger extent than at present, on income from private sources."

He has given the various interested parties until November to comment on the proposal and on the criticisms that the present academic system is failing to supply what industrial managements need.

When the topic was discussed by the Conference of University Management Schools in Henley, west of London, at the weekend, privatisation was firmly opposed by Professors Peter Moore of London Business School, Sam Eilon of Imperial College and Chris Higgins of Bradford University Management Centre.

But heads of other schools, who insisted on anonymity, were clearly tempted by Sir Keith's invitation. One said the only reason he had not put in a bid for freedom already was his fear that the Education Secretary would withdraw his offer under pressure from universities opposed to losing the money-earning capacity of their "in-house" business schools.

If the offer were withdrawn, schools which had applied to go independent would have simply poisoned relations with their universities to no avail.

Even if independence is not feasible, however, the schools intend to use Sir Keith's intervention to gain greater autonomy from their parent universities.

Weaker $ 'likely to aid debtor nations'

By Robin Pauley

THE WEAKENING U.S. dollar could be good news for Third World debtor nations which will find it easier to pay off their massive debts and return to financial stability, according to the economic adviser to Lloyds Bank.

Mr Christopher Johnson says in today's issue of Lloyds Bank International Financial Outlook that it is widely feared that the slowdown of the U.S. economy and the possible rise in U.S. interest rates could reverse the beneficial effects of last year's fall in interest rates and strong growth of American imports.

However, an analysis of debtor nations' liabilities, including those of oil exporters, shows that a failing dollar could improve the ratio of debt to revenue in the poorer countries.

The developing countries have an aggregate current account deficit of $36bn in 1985, equivalent to 1.7 per cent of GNP, 5 per cent of exports and 4 per cent of debt.

Gross interest payments on all debt are $81bn which represents 3.75 per cent of GNP, 11.25 per cent of exports and 9 per cent of debt.

Servicing this debt, comprising interest on all loans and repayments of principal only on loans of more than 12 months' original maturity, is 5.8 per cent of GNP, 17.5 per cent of exports and 14 per cent of debt. The total $900bn debt is 42 per cent of GNP and 125 per cent of exports.

About two thirds of the debt is owed to banks and other private sector sources. About half is at variable interest rates and about 75 per cent is in U.S. dollars.

The net effect of a dollar fall and the consequent rise in other currencies and rise in export growth would be a fall in the debt to export ratio. "Major debtors may prefer to take the benefits of the dollar's decline in a more rapid reduction of these ratios in order to re-establish their eligibility for a resumption of voluntary lending by international banks," he says.

INSURANCE

Life companies cool on plan to overhaul state pensions

By Eric Short

MR NORMAN FOWLER, the Social Services Minister, unveiled in June the Government's plan for radical revision of the social security system. One major change being proposed is the ending of the state earnings-related pension scheme (Serps) and its replacement by compulsory company pension schemes and personal pensions.

The Labour Party, in its attacks on the proposals, has accused the Government of a variety of dubious motives behind the changes, including the desire to bestow favours on insurance companies. This particular accusation has been made many times. The latest has been as recent as last Friday by Dr Oonagh MacDonald, Labour's spokeswoman for the Treasury and the Civil Service.

The proposals look very favourable for life companies, even if they lose their present monopoly for individual pensions. However many life companies, particularly the traditional ones, appear far from enthusiastic over the proposals, and are telling Mr Fowler.

Even Abbey Life Assurance, which as Britain's second largest life company would be expected to fully benefit from the changes, feels strongly that political considerations have outweighed any considerations for the financial wellbeing of the public.

The reaction from the Life Insurance Council of the Association of British Insurers, the life companies' trade association, is expected to be published today. However, many life companies feel the need to make separate submissions in order to express their views more forcibly to Mr Fowler.

This attitude is summed up by Mr Derek Fellows, who is chief actuary and head of the UK group pensions operations of the Prudential Corporation, Britain's largest life company.

He pointed out that the Government's proposals were so fundamental and far-reaching that his company felt it had to speak out rather than leave it to an industry response that invariably puts forward a compromised view.

Some life companies which have pension consultants are critical of the basic philosophy behind the proposals. Pension consultants Reed Stenhouse have attacked the proposals as paying lip service to the alleged process of consultation. It said the proposals ignore the record of development in occupational pension schemes and will result in lower living standards for future pensioners.

Norman Fowler: plans radical revision

Mr George Gwilt, general manager of Standard Life Assurance, Scotland's largest life company, attacked the Government's premise for ending Serps which was that it would be too costly in the next century.

He said that the proposals would simply reduce costs to the state and add correspondingly increased costs to private provision, with the result that the total cost would be unchanged.

All submissions are unanimous in condemning the Government for ending the political consensus on pensions. They see the danger that the proposals will result in pensions once again becoming a political football, with each new government changing the system of its predecessor. This, they claim, will make employers very reluctant to undertake any new pension changes on the grounds that this could be reversed.

Standard Life joins with Reed Stenhouse in calling for a new review of pensions that will not be the piecemeal one made by the Government.

The companies are critical of the terms of the proposals, which they feel will result in a sharp rise in overall pension costs.

In dealing with the Government's main proposals, the companies are doubtful of the underlying switch in funded methods. London Life Association repeats the assertions that final salary pension schemes are the best means of providing adequate pensions for employees. It is doubtful that the new proposals operating on a money purchase basis will meet the pension needs of the vast majority of employees retiring in the next century. All companies feel that the proposed minimum contribution of 4 per cent of earnings is far too low to provide adequate pensions even if investment conditions are good.

Finally, the main thrust of the submissions is a bitter attack on the very short timetable set out to implement the changeover by April 1987. Mr Ted Tilly, Legal and General's life pensions director, forecasts this will result in chaos for everyone concerned.

The Pru in its evidence warns the Government that the handling of small weekly or monthly contributions from several million relatively low paid workers will involve a vast administration disproportionate to the benefits that will be provided.

Mr Fellows points out that the Prudential's extensive field force will be fully occupied up until April 1987. There will be little time for the pension inspectors to market pensions to those employers who under the proposals will have to set up pension schemes for the first time.

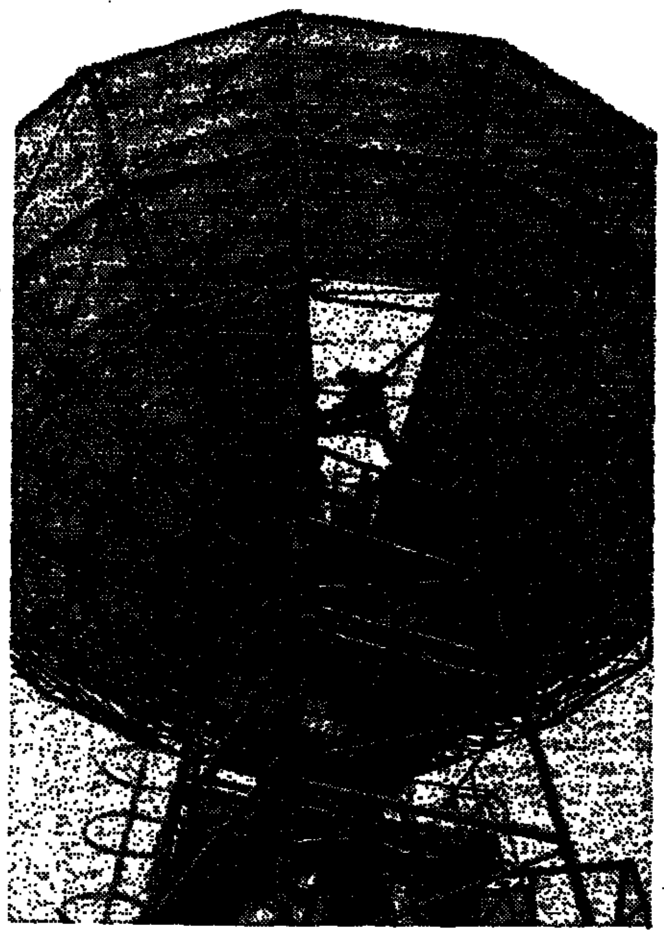
● The actuarial profession has warned Mr Norman Fowler, the Social Services Secretary, that his proposals to reorganise the UK pension scheme will not work unless there is a radical change in attitude by the Inland Revenue.

The joint submission by the two professional actuarial bodies, the Institute of Actuaries in London and the Faculty of Actuaries in Edinburgh, on the pension reform proposals states that in order to work the new system requires a single co-ordinated tax regime which reconciles the different objectives of the Treasury and the Department of Health and Social Security.

FINANCIAL TIMES SURVEY

Monday September 16 1985

BROADCASTING



● This London Dockland earth station is a vital link with television audiences in seven European countries. The first customer at British Telecom's international earth station at North Woolwich was Satellite Television which has a nightly international TV entertainment programme, Skychannel.

Moves towards deregulation in broadcasting plus rapid changes in cable and satellite technology are leading to new business alliances which aim to win pan-European audiences

New era in European television

By RAYMOND SNODDY

BROADCASTING in Britain and most of the rest of Western Europe has reached a significant crossroads. The public service broadcasters, many of which have enjoyed monopolies or near monopolies over the use of scarce airwaves, are having their activities questioned as never before. Although change will not come overnight, they face a future in which they may have growing competition for their audiences from cable and satellite programmes as well as the video recorder.

The arrival of satellite broadcasting has created for the first time at least the potential of a single European market for television channels, those who produce them and for advertisers.

Such rapid changes in technology and the moves towards broadcasting deregulation are creating new business alliances and diversifications—for instance, the move in West Germany and France by traditional publishers into cable television programming.

In the past two years 10 new channels of programmes have been created in Europe and at least a dozen more are on the way. A new pan-European channel, Olympus TV funded by five of Europe's public service broadcasters, opens on October 5.

By early next year the channel will be carrying five hours of programmes a night to cable television operators all over Western Europe. In 1987 it will transfer to a direct broadcasting by satellite (DBS) channel on the European Space Agency's Olympus satellite and will then be able to be received through dish aerials at individual homes.

But all over Europe the new developments have left fundamental questions unanswered on whether the consumer is prepared to pay for the extra choice that technology has made possible. Will enough people pay subscriptions for extra entertainment, or if not, how many new channels will the pan-European advertising market sustain?

There are also worries about how the transition from the controlled era of public service broadcasting to the new era envisaged by some of "limitless" capacity is going to be handled to ensure that more channels will not simply result in less genuine variety.

As Michel Cotta, President of the French Haute Autorite, has argued, if the new media are given an unfair advantage over the established ones there is a risk of the television of tomorrow being built on the ruins of the television of yesterday and today.

In Britain, the future of broadcasting has come to the centre of the political stage because of the setting up by the former Home Secretary, Mr Leon Brittan, of the Peacock Committee into the future financing of the BBC.

The terms of reference of the committee appear narrow: to look at the strength of arguments for and against alternatives to the licence fee such as advertising, sponsorship and subscription. In practice, the committee will have to question the assumptions on which the present British broadcasting system is based and the consequences for independent television and the rest of the media of introducing advertising on the BBC.

The setting up of the committee, which is due to report by next summer, has increased uncertainty over the future of an industry which in the UK will have a £2bn turnover this year and which employs, directly or indirectly, an estimated 60,000 people.

Key factors

The existence of the committee and the question marks raised over the continuation of ITV's television advertising monopoly were one of the contributory factors behind the collapse of the £500m British DBS venture in June. Two years ago this month, Mr Brittan announced at the Royal Television Society's Cambridge Convention that independent television would be allocated two of Britain's five available DBS channels to match the two already offered to the BBC.

Instead, first the BBC decided it could not launch a DBS service alone and then a consortium which brought together the BBC, all ITV companies and five non-organisations led by Thorn EMI, decided after 18 months of meetings that the costs and risks were too great.

Now after two years with nothing concrete achieved, the Independent Broadcasting Authority has asked this month for approaches from any organisation interested in providing one or more DBS channels.

It is far from clear whether there will be any groups interested in providing a service aimed at the UK rather than pan-European market.

The ITV companies and the BBC, perhaps in collaboration, are however considering the possibility of launching a channel of British television for the cable networks of Europe using an existing low power satellite.

The Government has also increased uncertainty over radio in the UK by authorising, on an experimental basis, a new "third tier" of community radio. It is being done at a time when the independent local radio network is far from complete and a considerable proportion of its stations are under financial pressure.

New multi-channel cable television has also been having a difficult birth in the UK, partly because of contradictory government policies.

But the industry is about to receive a significant boost. Five new cable stations and an additional five channels are due to start up within the next few months. Yet the latest audience research for cable in the UK demonstrates what a long way there is to go.

The number of homes connected to a cable network at the beginning of August was 904,270, an increase of 31.1 per cent since January.

But over the same period the percentage of homes connected actually fell by 1.1 per cent to 128,685 giving a penetration rate for the new services of 14.2 per cent. The main reason for the decline was a fall in the number of subscribers on the old Rediffusion cable networks now owned by Mr Robert Maxwell.

The cabling of West Germany is beginning to speed up after a very slow start, caused partly because of the difficulties the leaders of the 11 Lander provinces and city states found in agreeing a common policy on the new media.

According to some German estimates, the number of homes capable of receiving satellite broadcasting should rise to 3.4m by the end of this year.

European cable television is not the disaster it has been often portrayed. CIT Research, a consultancy which has been monitoring its development, says that 8.5 per cent of European homes are already connected to some form of cable

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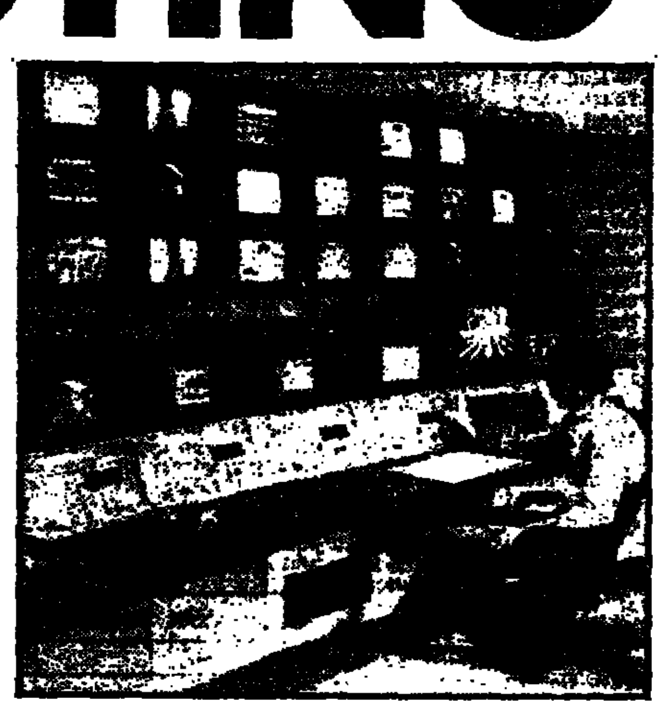


● A section of Swindon Cable's control room, one of the eleven UK cable television operators which have been granted Government licences. Coventry Cable was formally launched last week.

ON OTHER PAGES

State broadcasters' diversification

Broadcaster	Country	Project
RAI	Italy	Olympus TV
NOS	Norway	Olympus TV
ARD	Grmny.	Olympus TV
RTE	Ireland	Olympus TV
ZDF	Grmny.	3 Sat
ORF	Austria	3 Sat
SRG	Swtzld.	3 Sat
TF1	France	TV-5
Antenne 2	France	TV-5
FR3	France	TV-5
RTBF	Belgium	TV-5
SSR	Swtzld.	TV-5

European TV advertising expenditure

Figures for 1983

	Total expenditure ($m)	TV share %
Portugal	32	60.0
Greece	86	47.6
Italy	1,294	45.0
Ireland	75	38.0
UK	4,295	31.0
Spain	962	30.9
France	1,960	19.0
Germany	4,757	15.6
Belgium*	413	11.3
Finland	808	10.6
Switzerland	476	10.5
Netherlands	1,419	5.1
Denmark†	232	0.0
Norway†	312	0.0
Sweden†	356	0.0

* Transmitted from Luxembourg.
† Second commercial channel pending or under discussion.

Source: Advertising Age Focus.

Press barons have a keen eye on new TV advertising markets, as **Raymond Snoddy** reports.

European satellite battle looms

THE PROSPECT of an international television satellite battle for the pan-European advertising market which will pit against each other the press barons, Rupert Murdoch and Robert Maxwell, is looming on the horizon.

Murdoch has won a considerable lead in this particular race through Sky Channel, the general entertainment service which is now available to more than 4m homes in Western Europe. Viewers as far apart as Norway and Switzerland can receive the advertising-financed programmes. Just recently the channel was given permission to "land" in the French-speaking areas of Belgium.

But Robert Maxwell, who bought the cable television interests of Rediffusion and now runs Mirrorvision, a cable television film channel, is also going to enter the field.

Mr Maxwell plans to take a 20 per cent stake in the French company which will operate France's TDF-1 television satellite due to be launched next July.

Maxwell's interest in the company which will run Europe's first direct broadcasting by satellite (DBS) project was announced in August but will have to be confirmed by the French Government.

If Mr Maxwell does indeed go ahead with a high power DBS channel he will not only be able to reach all the cable operators of Western Europe. The satellite would be able to reach a potential audience of 150m through dish antennae as small as 0.6 metres on individual homes.

The signal could be received on 0.6m dishes over most of the southern half of Britain.

Mr Maxwell is planning an advertising-supported general entertainment channel which would compete directly with Sky Channel and with plans by the British independent television companies to launch a "best of British" cable channel for Europe.

The DBS moves in France are in marked contrast to the lack of progress in Britain. In June, the British DBS project collapsed after 18 months of talking. The DBS consortium which grouped the BBC, the ITV companies and five non-broadcasting organisations, led by Thorn EMI, decided unanimously to pull the plug on a project that could have cost anything between £500m-£600m.

Part of the reason for the collapse was the Government insistence that the consortium should use an expensive British satellite system at the same time as ruling out any possibility of public subsidy. But there was also concern whether the potential market in the UK was large enough to justify such an expensive venture.

The Government has decided to try again. And earlier this month, the Independent Broadcasting Authority (IBA) asked for expressions of interest. It it not clear whether there will be any takers although a more flexible attitude on satellite purchase is expected this time round.

As the prospects for DBS seem uncertain at best cable television is slowly pulling itself out of the doldrums of a year ago.

New operators

Five new cable television operators, first granted their franchises in November, 1983, will finally begin transmissions before the end of the year—albeit, only to a small number of homes at first.

The five newcomers are Coventry, Croydon, Clyde, Westminster and Windsor—to join Swindon and Aberdeen, the first two of the 11 operators granted licences by the Government to get going.

Coventry Cable was formally launched last week although several hundred homes in the east of the city have been receiving transmissions on a tria basis since the early summer.

Coventry says the service has been well-received and that all of the "guinea pigs" have now signed-up year-long subscriptions.

The company, whose largest shareholders are Thorn EMI and British Telecom, hopes to lay cable past 16,000 homes by next March and a total of 120,000 within three to five years. Subscribers will be offered a total of 14 channels to begin with, including broadcast television channels and local and community access channels but this will increase to 16 by the end of the year.

Mr John Ross-Barnard, chief executive of Coventry Cable, says he believes the right time for cable had now come and that the arrival of five new stations within a few months would start to change national perceptions about the industry.

The full Coventry cable service will cost £13.95 a month to begin with—£7.95 without Premier the film channel. Mr Jon Davey, director general of the Cable Authority, the body which regulates the new industry, said recently he thought the outlook for cable now looked encouraging.

"Once we have the experience of the other new systems, apart from Aberdeen, I am sure we are going to have a much rosier picture," Mr Davey said.

The progress of Aberdeen Cable since it was launched in May provides some modest cause for optimism. In its first three months the company signed up 600 subscribers, a penetration rate of 30 per cent of all homes passed by the cable network so far. Mr Patrick Scott, chief executive, hopes the penetration level can be pushed up in his autumn selling campaign.

The beginning of Clyde Cablevision's service in north and central Glasgow next month will also give a significant psychological boost to the cable industry.

Mr Maxwell, apart from investing himself in Clyde, is widely believed to have been influential in persuading Lord Weinstock of GEC and Mercury Communications to invest and get the company off the ground.

Last month the Cable Authority announced the awarding of five new franchises for the London Docklands, West Surrey and East Hampshire, Wandsworth in SW London, Bolton and the Cheltenham and Gloucester area.

The arrival of new cable stations in the autumn will coincide with an expansion of the number of programme channels available. At present the choice of cable services is made up of six channels: Premiere and Mirrorvision (also a film channel), Music Box (pop music), Children's Channel, Screen Sport and Sky.

An Arts channel and a Life Style channel are on the way as well as two new film channels: Bravo, an American service based on old films; and Home Video Channel, an economy film service which will cut overheads by delivering cassettes to cable operators by courier, rather than using a satellite system.

There is also a growing likelihood that by next year a pan-European news channel will be available. Visnews, the London-based international television news agency, has been looking longingly at the possibility for some time. The chances of going ahead are likely to increase next month when Reuter, the financial services and news agency group, is due to formally increase its stake in Visnews to 55 per cent.

Visnews will probably, however, face competition in Europe from Mr Ted Turner's Cable News Network. The Atlanta media entrepreneur plans to begin a service in Europe this month to broadcasters and hotels for an experimental period. But a wider Turner role in Europe in future seems very likely.

The programme providers may also be able to benefit from an interim market provided by Satellite Master Antennae Television (SMATV). This is the system of erecting a satellite dish on a hotel, military base or small existing cable network to receive satellite television programmes.

After lobbying by the programme providers, Mr Geoffrey Pattie, the Information Technology Minister in the Department of Trade and Industry (DTI), liberalised in May the rules on SMATV and on individuals putting up their own dishes to receive new programmes.

SMATV will only be allowed in areas which are not about to be cabled by modern multi-channel systems. But individuals and businesses will be free to put up dishes for individual premises after buying a £10 licence from the DTI. Since the liberalisation more than 400 people have applied for licences and applications are coming in at the rate of about 20 a week.

According to some estimates, the market for SMATV equipment could be worth £50m a year by 1987.

At the moment at prices of between £1,500 to £2,000, satellite dishes have limited mass appeal to the consumer market. But some in the industry believe that in mass production the price of the dishes and associated electronics could relatively quickly fall by half and seize the public imagination.

Certainly the big Japanese electronics companies are interested in this new product as colour television sets and video-recorders show increasing signs of becoming mature markets.

By next year there will probably be at least 20 channels beaming television programmes to Europe to stimulate demand for both cable and individual satellite dishes on hotels and homes.

European broadcasting markets

	Belgium	Denmark	France	Germany	Ireland	Italy	Netherlds.	Norway	Spain	Switzd.	UK
Households (m)	3.6	2.1	20.2	25.2	0.85	18.5	5.3	1.55	10.2	2.5	21.63
Adults who speak:											
English (%)	26	51	26	30	99	13	50	80	n.a.	36	100
French (%)	71	5	100	12	12	27	16	10	n.a.	55	16
German (%)	22	48	11	100	2	6	61	20	n.a.	81	9
Italian (%)	4	1	8	2	1	100	2	4	n.a.	17	2
Spanish (%)	3	1	13	2	1	5	2	2	100	3	3
Flemish-Dutch (%)	68	1	1	3	—	—	100	—	—	—	1

Source: Gallup survey.

Western Europe's cable TV growth projections

	1985	1987	1989	1991	1993	1995
Number of households (m)	125	126	127	128	129	130
Percentage of households linked to:						
CATV	8.5	9.8	11.5	13.1	14.7	16.6
Advanced systems	2.8	3.9	5.7	7.4	9.1	11.3
Percentage of households subscribing to:						
Basic service	2.7	4.4	6.4	8.3	10.3	13.1
Premium service		1.5	2.5	4.0	5.3	7.8
Annual estimated capital expenditure ($m)	650	865	995	1,045	980	910
Annual estimated subscriber revenue ($m)	410	650	980	1,350	1,800	2,350
Annual estimated advertising revenue ($m)	20	110	260	460	700	940

Source: CIT Research.

Small is now beautiful in the broadcast engineering business.

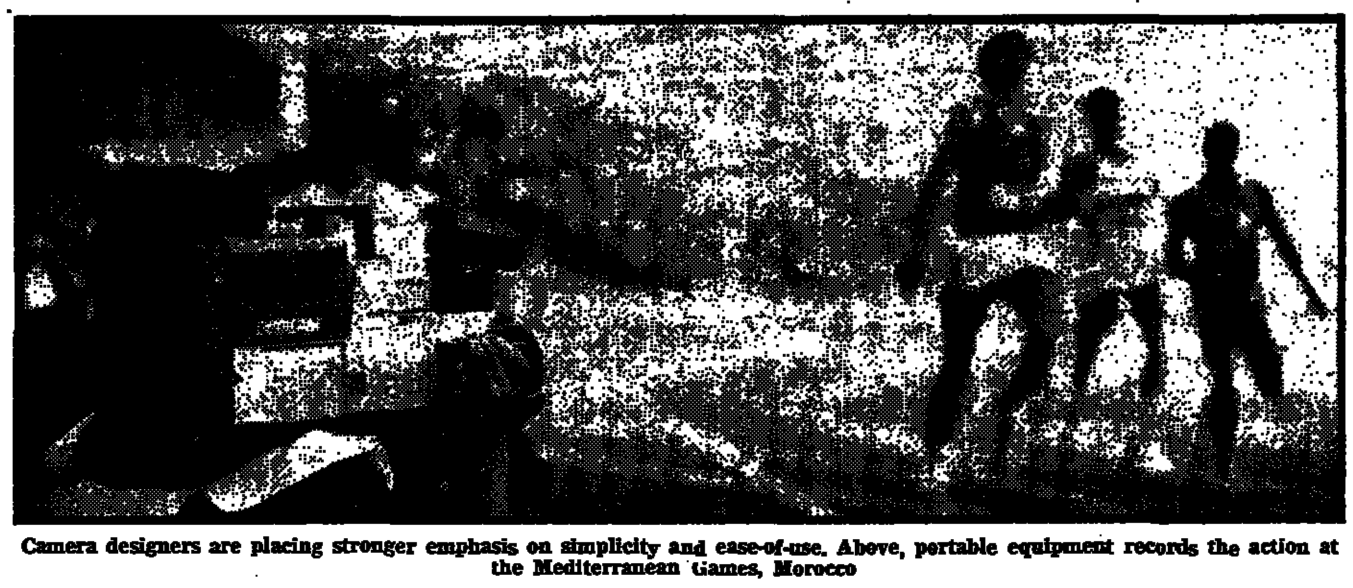
The human factor in TV technology

WHILE DEVELOPMENTS in broadcast television technology have galloped along at a healthy pace over the last decade, it is only relatively recently that the human factor has started to figure significantly.

Until now, television cameras, videotape recorders, editing suites and ancillary equipment—such as for special effects recording—have all improved in quality and versatility—to the point where any further improvement of magnitude may come only through radical changes in the systems employed (eg a change in the line standard to more than 625 lines or the adoption of digital signal processing).

The human factor could now emerge as the next unique selling point for the manufacturers. This started to become an issue with the arrival of lightweight ENG cameras, such as Sony's Betacam—which one person can operate with ease on a mountain top if necessary.

Small is now beautiful in the broadcast engineering business, and one company—Ampex—has even raised the possibility of an ENG broadcast camera using the latest 8mm consumer videocassettes. Ampex is also pushing the importance of the human interface with equipment placing more design emphasis on simplicity in use—exemplified well by the ACE video editing system which provides a joystick control for the editor instead of leaving total dependence on coded buttons.



Camera designers are placing stronger emphasis on simplicity and ease-of-use. Above, portable equipment records the action at the Mediterranean Games, Morocco

One ex-film editor, now a co-founder of the new facilities company Video Tape Recording, likens the ACE to a Steenbeck film editing table—allowing the editor to get a "feel" for videotape by providing positive control over its movement and framing.

People are becoming much more important in the engineering equations, not least in the facilities houses where some equipment—such as that used in creating computer graphics for TV titles and animation—depends on the most specialised blend of computer skills and creative ideas. Consequently, although hardware may appear to dominate the technology of broadcasting and the success of the companies who use it, the ultimate success rests in the hands of the people available to exploit it.

Meanwhile, there is no shortage of ideas and progress in producing better equipment—even if the law of diminishing returns may start to hinder the designers.

The most significant areas of development are in television camera design, signal processing, and TV displays. Improvements in telecine equipment, videotape recorders and post-production equipment are not lacking but ironically present less scope for progress because they have advanced so much already.

A component of particular interest in TV camera design is the image pick-up device—conventionally an electronic tube but becoming available as a solid state CCD (charge coupled device). RCA now have a broadcast-standard TV camera using a CCD in place of a conventional tube, one important benefit of which is the elimination of picture smear (visible especially when highlight movement occurs against dark backgrounds).

Cameras with built-in video recorders are now also widely available, and in regular use by broadcasters, capable of yielding excellent quality in situations where before a 16 mm film camera might have been used. Apart from Sony's Betacam, others are now being offered by companies such as Panasonic with ½ in. VHS cassettes as the recording medium.

In signal processing, two important changes are now appearing over the horizon—the new MAC system, developed for satellite TV transmission; and digital techniques.

MAC employs a method of coping with the separate colour and luminance components of a TV signal by multiplexing—that it, chopping the signals into bits and interspersing them, instead of mixing them together as occurs with conventional transmission. This has important technical benefits, resulting in fewer quality faults in the pictures.

Digital processing brings television to the state which computers have reached. It is almost easy to forget that early computers used analogue processing—that is, continuously variable electrical signals—instead of binary coding in which the signal could be almost expressed as discrete numbers without gradual variations in between. This means that spurious information which does not naturally occur as a binary code—eg noise on picture—can be excluded.

Digital processing allows scope for great enhancement in picture quality, and in particular permits repeated processing of the signal—as in special effects work—without degradation. The changeover to digital techniques would involved a massive engineering programme, which if carried right through to the receiver end could make current TV sets redundant. But digital processing is now being used in various parts of the chain—even within some circuits in TV receivers.

Some experts in the industry believe that TV receivers are next in line for the most major improvements. As one leading engineer, Dr Boris Townsend, has so simply put it—"the development of a large, bright, high resolution display." Considered in that way, it seems extraordinary that we have all put up—for so long—with those tiny boxes and rather fuzzy screens. Help is on the way with not only improved receiver designs—modern cathode ray tubes are brighter, sharper, flatter and squarer—but new display devices which offer some prospect of the 3ft-wide TV receiver within perhaps 10 years.

Higher-quality stereo sound is already a reality on some TV receivers (albeit no stereo sound transmissions as part of the normal service in UK). Some people have ideas for stereoscopic or 3D television, but the technology with any 3D system that does not involve projection of the image is inherently elaborate.

However, one area where progress seems as impossible to achieve as ever is that of cost. Television equipment is very expensive and does not get any cheaper. But the ultimate barrier remains the human factor: people do not get any cheaper either, and the cost of programmes in the end is determined more by that than by the technology.

John Chittock

Jason Crisp looks at the technology that will turn the visionaries' dream into reality.

Family TV : the shape of things to come

SOME TECHNOLOGICAL visionaries have a dream of how we will receive our electronic entertainment in the home of the future. They see a large flat TV screen hanging on the wall, similar in shape to the cinema screen. The picture is bright with very high definition and the sound is stereo and digital, of compact disc quality.

The pictures may be coming from space, beamed from a geostationary satellite, from multichannel cable, terrestrial broadcast, video disc or tape. The system is permanently connected to computers via the cable and a special digital circuit on the telephone which does not affect its normal use for conversation.

The watching family look to see details on other channels, which can appear inset in the main picture. They can also call *up information on holidays from* a computer: pictures of the resort are shown together with latest details of the costs and they can book and pay for the holiday at the tap of a few buttons. Then, at the bottom of the screen, a message appears from a nearby computed, via the telephone—the TV rental company has not been paid.

Up to a point, this vision—or nightmare, depending on your viewpoint—is a nonsense, but nevertheless much of the technology which would make it all possible is—or soon will be—available. Digital television, direct broadcast by satellite, *viewdata, teletext* are already with us. The debate on international standards for high definition television is well advanced and research departments at major consumer electronics groups are struggling with the phenomenal challenge of the true flat-screen TV.

Today, with sales of conventional colour TVs generally rather depressed in most countries—with the notable exception of China—the set manufacturers are anxious to introduce new models in a bid to stimulate sales. The first significant changes to arrive are flatter, squarer tubes (FST) and digital TVs. Real flat screen TVs and *high definition* are not *likely* to appear this decade in a commercial version.

The picture tube manufacturers—such as Toshiba, Philips and Thomson—are making a substantial investment in FST. As you would expect, the picture tube is flatter and squarer than the conventional one and gives a better-looking picture. At present, FST sets are being sold at a substantial premium because of their scarcity. The manufacturers hope that FST will continue with a premium—not least because the tube is more expensive to make and is the single largest component of any TV set.

The hope is that over the next two to three years the FST will become the standard television in the leading industrialised countries. The conventional sets will still be sold as "budget" TVs.

Digital TV

Another advance which is just beginning to appear is digital TV which gives much more control over the picture. It should allow facilities to watch more than one channel at once by having a small inset or to freeze a single shot. At present, the advantages are limited because the broadcast signal is not digital. The costs are also likely to be high because of the price of memory microchips needed to store the large amounts of information which make up a television picture.

Next month, ITT is expected to launch a digital television in West Germany which will include freeze-frame and the *ability to watch more than one* picture at a time. The inset picture occupies 60 of the standard 625 lines used in the PAL transmission system.

The inset picture can show what is on other broadcast channels; it can be linked to the tuner in the video recorder to show what is being recorded or linked to a video camera which could, for example, be used to monitor the children's bedroom, says ITT.

The company expects to introduce the set in other PAL countries shortly. It is likely to be very expensive and it also includes stereo sound (available from some videos and from limited broadcasting in West Germany) and to videotex, such as Britain's Prestel service.

Direct broadcasting by Satellite (DBS) looks as it it will be the main catalyst for the introduction of high definition TV. This will give much better quality pictures with a considerable improvement in resolution close to the quality of 35 mm cinema film. This would make it possible to have larger television screens.

There is still considerable uncertainty surrounding high definition TV not least because of the inevitable international and commercial disagreements over standards. The Japanese—the world's leading producers of colour TV sets—appear to be pushing hardest for it.

At this year's Montreux International Television Symposium, Mr Tom Robson, director of engineering at Britain's IBA, said: "Without doubt, high-definition television will be in every home at some time in the future. I cannot see it happening in less than 20 years, possibly longer."

Nonetheless, Mr Robson described the pictures being shown on the Japanese 1,125-line high-definition TV, on 10-foot-wide screens, as "breathtaking in their technical excellence and in the reality of the scenes they are able to portray."

His main concern was whether the Japanese system would be economic for consumers and broadcasters. "The assumption seems to be that because feature films are shown on television, the whole of television production should be geared to the same electronic standard," he says.

"It would be far more appropriate for the broadcaster to adopt to an enhanced compatible system that makes the best of existing transmission standards, matches the best that can be achieved in the home, leads to the minimum change of the technical installations in the studios and could be carried over a single DBS channel."

These and other commercial problems will inevitably delay the introduction of many new technologies which, at first sight, seem to be ripe to leave the laboratories. The problems which many countries have faced with direct broadcast by satellite is a good illustration of how long it takes to turn the visionaries' dream into reality.

New era in European TV

CONTINUED FROM PAGE 1

and this could double within 10 years.

The business could generate annual capital expenditure of more than $1bn by the early 1990s and subscribers' revenue, now about $400m, could have increased five times by 1995 CIT believes. In France, the Government has embarked on an ambitious 15-year cabling plan—although it has been accompanied by an explosion of new broadcasting developments, some at least in direct competition with each other.

As the Government has pushed ahead with deregulation first Canal Plus, an over-the-air subscription pay television channel, was added to the existing three French national networks.

Then in July the Government gave the go-ahead for two new commercial television networks due to be launched next year. The expansion comes on top of the scheduled launch of the TDF-1 direct broadcasting satellite next July.

The French have also announced plans for tax shelters to encourage more risk capital to be put into film and television production.

The French Government, and indeed the European Commission, is concerned that the expansion of broadcasting capacity in Europe should lead to an expansion of European television production and employment and not just an expansion of cheap programme imports from the U.S.

The commission has been considering ways of encouraging European programme production and through its Green Paper, Television Without Frontiers, advocating the creation of a common market in broadcasting.

But as arguments about culture, national identity, technology and business opportunities start to become tangled, the only certainty for broadcasters over the next few years seems to be an unprecedented period of change.

Economy plans could mean the loss of 4,000 corporation jobs.

Debate intensifies over BBC's future

AUGUST was a cruel month for the BBC. The Corporation was plunged into one of the most serious crises in its history as a result of the banning of the Real Lives documentary on Northern Ireland, following political pressure from the former Home Secretary, Mr Leon Brittan.

Before the dust from that row had settled, along came another "banana skin"—over M15 vetting of BBC staff—which also contrived to question, but in a new and more alarming way, the independence of the BBC from Government.

Both issues, have damaged the BBC's reputation in Britain and abroad. But early this month there were signs of a general realisation that action was urgently required to heal rifts between the BBC board of management and governors over Real Lives and between the Corporation and its staff over both Real Lives and vetting.

The governors decided that the programme, *At The Edge of The Union*, will after minor changes, be shown next month. *It is also likely that the* BBC will decide as a result of the review of vetting now taking place to cut drastically the numbers involved. One possibility is to vet only those who might be responsible for broadcasting in the *event of a nuclear* emergency and inform those who apply for jobs which carry such additional responsibilities that they are likely to be vetted.

The public confirmation of a practice which first began in 1936 and a political row over the showing of a documentary, which became dangerously out-*of-hand, have obscured less* dramatic yet fundamental changes now under way at the BBC.

The process began in March when the Government gave the BBC a £58 colour licence fee for the next three years, instead of the £65 sought, and accompanied the decision with an *inquiry into the future* financing of the Corporation.

A committee, chaired by Prof Alan Peacock, research professor at Heriott Watt University, is already at work reviewing the first batch of submissions.

The Committee, which is due to report to the Home Secretary, now Mr Douglas Hurd, next summer will assess the advantages and disadvantages of alternatives to the licence fee to *finance the BBC. In particular*, it will look at the feasibility of financing the Corporation in full or in part from advertising and the likely effect of this on the rest of the media including newspapers.

The BBC will not publish its evidence to the Committee until the end of this month, but it is clear that the Corporation has come out with an unequivocal statement that the licence fee is the best method of financing the BBC and, if there is a problem, it lies in how to help the "needy" who *may watch a lot of television* but who find the £58 licence fee — even in monthly stamps — a lot to pay.

Early in the Peacock campaign, however, Mr Stuart Young made his position very clear. If the BBC had to take advertising at all it should be allowed to "do the job *properly." He believes advertising* on the BBC would not only be wrong for the Corporation but for all of British broadcasting.

8 If the Peacock committee disagreed "then I think we should be in advertising properly, fully and competitively. And if that happened, the BBC management is very efficient and would do the job successfully," Mr Young said.

The £58 licence fee settlement left the BBC with a potential shortfall of £65m over three years after plans for development and enhancing services were jettisoned.

In the Spring, partly to cope with the budget shortfall and partly to pre-empt any action by Peacock, the BBC began a *detailed review of its activities.*

It started out as a conventional budget review that has traditionally followed each *lower-than-hoped-for* licence fee settlement. Cut future development and order a general trim of budgets to equalise some of the suffering.

But a number of senior BBC executives including Mr Geoff Buck, director of finance and the recently appointed deputy director general Mr Michael Checkland began to wonder whether it was a good idea to continue muddling through.

*A four-man team which in*cluded both Mr Buck and Mr Checkland toured every part of the organisation and in 18 working days came up with the blueprint for the future.

The final plan agreed after 15 hours of *discussions* at a joint board of management/board of governors weekend meeting in July should not only allow the BBC to live within its means for the next three years but also actually transfer an additional £33m to improve programme quality and start general daytime television next year.

Mr Checkland concedes that the Home Secretary, by telling the BBC it could not have any more money for new developments, had provided an impetus for change.

The plans could involve the loss of up to 4,000 jobs, mostly by natural wastage. But more important are the assumptions that lie behind the bald figure. It is the realisation that the central bureaucracy should be trimmed relative to programme makers and more power devolved to the regions and that the BBC can buy much of the equipment it needs off the shelf and that everything does not have to be designed and manufactured by the Corporation's in-house staff.

Up to 1,000 engineering staff *could go as a result of the* economy plan, including the closure of its own electronics factory in Chiswick, West London. However, 2,000 cleaning, catering, security and maintenance staff jobs will only go if outside tenders for the work are lower.

On the programme side, the most significant changes were the decisions to increase the proportion of production staff on fixed-term contracts from its present 10 per cent to a minimum or 25 per cent and to take 150 hours a year of programmes from the independent programme production sector.

One of the key recommendations of the Peat Marwick "Value for Money" report which earlier in the year looked *into the efficiency of the* BBC, was that the corporation should compare its programme costs with those of the independents which supply Channel 4 to see whether money could be saved and lessons learned.

Underlying the changes—and probably more from necessity than choice—is an increasing determination by the BBC to be more commercial. It is a trend encouraged by Mr Young, senior partner in accountants Hacker Young.

The BBC is about to bring together all its commercial activities to try to develop a more unified market strategy. The BBC commercial activities are already a £100m a year revenue business. But they are divided between BBC Enterprises, which handles the *overseas sales of programmes*, records and products, such as the BBC micro-computer and publications, which is responsible for periodicals such as the Radio Times, the Listener and BBC books. An independent report by Marketing Improvements, the largest independent marketing consultants in the UK, recommended that all the commercial activities should be brought together.

*The BBC will bring all com*mercial activities under a reconstituted board of BBC Enterprises, under the chairmanship of Mr Checkland, an accountant who, until recently, was director of resources at BBC television.

Such an operation, by being more commercial, might help to relieve a little of the pres*sure on the licence fee, but* those involved claim that the effect will always be marginal on the £1bn a year sums needed to run the services of the BBC.

The turnover of BBC Enterprises has, however, increased from £7m to £42m in the past seven years.

The BBC's current top ten best-selling programes *world*wide is led by Agatha Christie's *Miss Marple* series and *Tender is the Night*, although *Yes, Minister*, *Bleak House* and *Dr Who* also make the chart.

Another indication that the BBC is preparing for a fight is the recent decision to spend up to £1m in advertising its programme *with possibly a little* corporate advertising included.

Raymond Snoddy

UK licence fees

	Radio	B & W TV	Colour TV and radio
1922	10s		
1946	£1	£2	
1954	£1	£3	
1957	£1	£4*	
1963	£1	£4†	
1965	£1 5s	£5	
1968	£1 5s	£5	£10
1969	£1 5s	£6	£11
1971	‡	£7	£12
1975		£8	£18
1977		£9	£21
1978		£10	£25
1979		£12	£34
1981		£15	£46
1985		£18	£58

* Includes £1 excise duty. † Excise duty abolished—full £4 to the BBC. ‡ Radio licence fee abolished.

Mr Alasdair Milne, director general of the BBC. The Corporation seems to be recovering from a ratings slump and the autumn schedules look strong

Mr Douglas Hurd, Britain's Home Secretary: next summer he will be reviewing the findings of the Peacock Committee on alternative options in BBC financing

ITV faces strongest-ever pressure

LATER THIS month independent television *will celebrate* the 30th anniversary of the transmission to the first commercial television programme and the first breach in the BBC's broadcasting monopoly.

But at the very time when ITV has been celebrating the achievements of the past 30 years, the federal system of 15 regional companies, plus TV-am, the commercial breakfast television company, is facing greater uncertainties and problems than at any time since its founding days.

A host of largely unrelated *commercial, technological* and political pressures have come together at the same time.

Top of the list of potential threats, as ITV sees it, is the Peacock Committee, set up in March by Mr Leon Brittan, the Home Secretary, to investigate possible alternatives to the licence fee for the funding of the BBC.

ITV fears that an inquiry set up to look at the financing of the BBC could have far more serious consequences for them if it were too recommend that the BBC should take advertising.

In its evidence to the Peacock Committee, submitted in August, the ITV companies tried to demonstrate that:

● No major growth in expenditure on television advertising in the UK is likely in the forseeable future.

● That any significant transfer of existing advertising to the BBC would undermine the ITV system and put its survival as a distinctive regional service at risk.

● That the present British broadcasting structure—where there is competition over programmes, but not for finance—encourages high programme standards and provides real choice.

Mr David Plowright, managing director of Granada Television and chairman of the Independent Television Companies' Association, emphasises that a *loss of advertising* revenue to the BBC of as little as £150m could make the regional ITV system untenable.

It could lead to forced mergers between companies and the concentraion of ITV in London and a few major cities.

The ITCA submission emphasised its belief that the licence fee is the best means of funding for the BBC.

"If a better means is available, we have not come across it," says ITCA.

As the ITV companies submitted their evidence to Prof Alan Peacock they were also awaiting the outcome of their own smaller Government inquiry—a joint Home Office/*Treasury look into the operation* of the ITV levy. The levy is a 67 per cent tax on almost all of ITV's profits which was introduced as an excess profits tax.

The Treasury, in particular, suspected that the high rate of marginal tax paid by ITV companies—more than 80 per cent —was leading to overmanning and inefficiency.

Would not the ITV companies tend to spend on anything, rather than give it to the Treasury? But what to the Treasury was money spent on overmanning was, to the ITV companies, money spent on quality programmes such as *Jewel in the Crown.*

The fear was that the Government might change the levy on profits into an unavoidable tax on turnover which could, in theory, have meant some ITV companies paying an *excess profits* tax in advance in years when they eventually did not actually make any profit.

The outcome of the levy review is expected from the Home Office in the autumn. But the signs are that a change to a turnover tax is not likely.

It is believed that the review committee recommended to ministers that the rate of profits levy should be reduced to 45 per cent and that this should be paid for by the imposition of a 25 per cent levy on the overseas *sales of programmes—income* which has been free of levy charges, until now.

The ITV companies will benefit from a considerably lower marginal rate of tax. In each of the past four years the *average profit of the ITV com*panies after levy has been deducted has never risen above 9 per cent.

Companies, however, which have depended a lot on overseas sales might find the change more difficult. Thames Television, the London weekday contractor and the largest ITV company, *for instance, announced* earlier this month that all its profits last year came from overseas sales.

At the very time that the levy review committee was making its inquiries alarm bells started to ring in ITV boardrooms over an unexpected and serious falling off in demand for television *advertising which began last* September.

The lack of growth and in *some months decline* in real terms, continued into the Spring and led to cost-cutting across the network with some of the smaller ITV companies, such as

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Comparisons in expenditure in advertising media

Total expenditure in each sector of UK media during 1984

Media	£m	%
National newspapers	678	16.7
Regional newspapers	921	22.7
Magazines and periodicals	250	6.2
Business and professional	311	7.7
Directories	182	4.5
Press production costs	216	5.3
Total Press	2,558	63.1
Television	1,245	30.7
Poster and transport	150	3.7
Cinema	16	0.4
Radio	86	2.1
Total	4,055	100.0

Mr David Plowright, chairman of the UK's Independent Television Companies' Association

Moves to strengthen links between feature film production and TV programming.

Gap closes between two worlds

MR CHARLES DENTON, chief executive of Zenith Productions, concedes happily that his company "is neither one thing nor the other" and that's exactly how he wants things to stay. Zenith, a wholly-owned subsidiary of Central Independent Television, the ITV contractor for the Midlands is trying to straddle—so far, successfully—the traditionally separate worlds of feature film and television production.

The company's latest feature film, "Insignificance," was the British entry at this year's Cannes Film Festival and won a special prize. And, last month, three Zenith films made it to the "Variety" Top 30 in the U.S.—albeit in its lower reaches.

Yet Zenith has also produced music specials for television and is involved with Silver Chalice Productions in a four-hour mini-series for television on Indira Gandhi, the assassinated Indian Prime Minister. There will be little change out of £5m for the series.

Zenith, Mr Denton says, is trying to keep in balance the different demands of television and film production while viewing them as a single world market to be exploited.

"I think it is essential that the two are in balance because the City still takes a pretty jaundiced view of the film business," concedes Mr Denton, a former director of programmes at Central.

On the question of balance, "we appear to be doing that at the moment and I have no large doubts that we will be able to do it in future," adds Mr Denton. Zenith has been operating as a separate entity for just over a year and has already produced "significant profits" for Central.

At Cannes, the company announced a slate of five new British feature films likely to cost a total of about £15m. But it is also hoping in the longer term to develop a co-production relationship with the BBC despite being the subsidiary of an ITV company.

"We cannot exclude half of the British broadcasting market. At the same time the BBC is now much more open to ventures with external partners," Mr Denton points out.

Zenith is probably the prime example of a single company trying to bridge the gap between film and elevision production and only time will tell whether it can be made to work.

In the industry there is almost endless argument on whether the gap between the two is narrowing—or should narrow.

Triple Oscar-winning director John Schlesinger believes the argument is rather sterile. In a lecture to the Edinburgh Television Festival last month, he said he had never understood the difference between making a film per se and making films for television.

"They both have certain rules. The only difference is the audience," he said. Yet in commercial terms the difference can be rather crucial as Goldcrest Films and Television (in which Pearson, publishers of the Financial Times has a 41.2 per cent stake) found out.

Last year, Goldcrest had to rethink its strategy on films made for television amid growing signs that productions such as the First Love series for Channel 4 were not working out financially.

Goldcrest said then that the company would get a return on investment from the eight firms of less than 10 per cent and outside participants would face a deficit.

The problem seemed to be the difficulty of securing theatrical release in the U.S. for what were, by American standards, low-budget films, combined with difficulties in the U.S. cable television market.

Goldcrest, which was involved in the financing of Oscar-winning films such as "Gandhi," "Chariots of Fire" and "The Killing Fields," also admitted recently that "Robin of Sherwood" was likely to produce less revenue than hoped because of lessening interest by U.S. cable companies in the second series.

There has been growing speculation in the industry that Goldcrest might pull out of television production altogether and concentrate solely on feature films. But Goldcrest says that television production continues, despite the recent departure of Mr Mike Wooler, director of television production, and his deputy.

Euston Films, apart from Zenith the only other film making subsidiary of an ITV company, has resolved the dilemma firmly in favour of the television market. The company, a subsidiary of Thames Television, the largest ITV company, makes virtually all its films with the ITV network and the world television market in mind.

Euston recently completed a feature version of Minder—"Minder on the Orient Express"—at a cost of £1.25m. Yet it will be seen not in the cinema but held in reserve for Christmas as a formidable weapon against the BBC in the ratings wars.

The only exceptions have been cinema films which have grown out of television series such as "The Sweeney."

"There was no great change of pace or style. The only difference is how much time and money you spend," said Mr Johnny Goodman, executive director of production at Euston Films, who spent most of his career in film production.

Silver Chalice Productions, an American company which works from the UK, is also aiming itself single-mindedly at the international television market, particularly in the U.S. "American television is a $5bn market and we want a piece of that action," says Ms Judith de Paul, the American chief executive officer of Silver Chalice.

The company has recently negotiated a $15m revolving line of credit arranged by County Bank and announced it is now producing programmes for the 1985-86 season worth $18m.

A six-hour mini-series produced by Silver Chalice, "Mountbatten: The Last Viceroy," will be shown on Mobil's Masterpiece Theatre in the U.S. in January and filming is likely to begin in the spring on a mini-series on Nazi war criminal Klaus Barbie.

Ms de Paul is very complimentary about British production whether it comes from a film or television background. "It's fabulous talent. The talent here is an untapped goldmine and I am tapping it," says Ms de Paul.

Raymond Snoddy

The Peacock Committee: looking for alternatives to the licence fee to fund the BBC; (left to right, standing), Sir Peter Reynolds, Prof Alastair Hetherington, Mr Samuel Brittan; (seated, left to right), Mr Jeremy Hardie, Lord Quinton, Lord Peacock, Miss Judith Chalmers

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Pressures on ITV

serious financial problems.

The fall which is still largely unexplained lasted right through to May and it was only in July that ITV managing directors allowed themselves a small sigh of relief with the news that revenue for the month had been £72.6m, £6.7m up on the same period last year, a rise of just over 10 per cent.

All the indications are that ITV is now likely to have a strong autumn with a realistic possibility that advertising revenue (net of advertising agency commission) should reach a total of £965m for 1985 compared with £912m — in line with inflation.

At the same time as ITV companies have been wrestling with commercial and political problems they have also had to face the difficult decisions on whether they should enter the new broadcasting world of satellite television.

In June, plans to run a high-power satellite broadcasting project with the BBC and five non-broadcasting organisations, collapsed because of worry about the size of the potential market and the cost of the satellites needed to reach it. Now the ITV companies are in the final stages of deciding whether to launch a SuperChannel on an existing satellite for the cable television networks of Europe.

SuperChannel would offer the ITV channel broadcast in the UK including ITN news and TV-am, but with library material to replace regional or more parochial programming.

A final decision on whether or not to go ahead is expected to be taken in October.

But in an intriguing insight into how current pressures are breaking down old rivalries, ITV is talking to the BBC about the possibility of the Corporation either investing in SuperChannel or supplying BBC programmes for it.

R. S.

ITV's income and expenditure

Figures submitted to the Peacock Committee

	Types of company: Network	Large regional	Small regional	£000 1984 Total
INCOME				
NAR	551,278	300,997	59,106	911,291
Sale of facilities	7,142	1,727	762	9,631
Other income (non levy)	22,766	6,830	631	30,217
TV Times	7,033	3,983	647	11,663
Total income	588,219	313,442	61,146	962,807
EXPENDITURE				
Direct costs on own productns.	145,067	42,345	5,380	192,732
Regional revenue	49,173	0	0	49,173
	95,834	42,345	5,380	143,559
Programme purchase	21,797	46,542	8,559	76,898
Programme sales	25,057	34,324	1,830	61,211
	(3,260)	12,218	6,729	15,687
News	17,916	9,939	1,836	29,691
Film	22,975	12,658	2,671	37,104
Total direct costs	133,465	76,560	16,016	226,041
Indirect costs	151,655	65,625	16,374	234,093
Administrative expenses	37,236	20,259	4,429	61,828
General est. charges	40,485	17,237	4,104	61,286
Sales expenses	15,092	12,605	6,666	34,363
Total indirect	244,462	115,526	32,283	392,210
Leasing	7,247	4,860	335	12,442
Depreciation	17,984	8,918	3,448	30,350
IBA rental	35,915	16,724	1,164	53,803
Fourth channel subscription	102,430	53,982	2,484	158,896
Extraordinary items	0	0	0	0
Total expenditure	541,903	275,570	56,730	873,803
Profit before levy and interest	46,716	37,872	4,416	89,004
Levy thereon	7,788	15,400	992	24,180
Profit before interest and tax	38,928	22,472	3,424	64,824
Interest received/(paid)	2,585	(338)	370	2,617

Diversity of independent programmes wins acclaim.

Channel 4 TV could become victim of its own success

BRITAIN'S Channel 4, set up to provide additional independent programme choice for the television audience, is in danger of becoming the victim of its own success.

The channel, which was vilified in its early days on the air by much of the press, now faces equally unreasonable degrees of uncritical favour.

In particular, the structure of the channel—essentially a commissioning house for programmes with low staff numbers and low overheads—is being contrasted favourably with the established broadcasters with their standing armies of staff and dozens of studios.

The Channel 4 experience is also being seized upon by some of the proponents of introducing advertising on the BBC as both a model of efficiency and proof that quality and advertising rest easily together.

Chairman gives his views

Mr Edmund Dell, the Channel 4 chairman, moved recently to head-off some of the more extreme lessons being read into Channel 4's record.

The channel, as Mr Dell argued in last month's annual report, has demonstrated the range of talent available in British television. But that talent had been given its head because Channel 4 had a reliable income—usually at the top-end within the range of 14-18 per cent of the net advertising revenue of the ITV companies.

Mr Jeremy Isaacs (left), Channel 4's chief executive, and (right), Mr Justin Dukes, Channel 4's managing director and deputy chief executive. "We set out to provide something of interest to everyone, at least part of the time . . . more than 70 per cent of Britain's TV viewers now turn to Channel 4 each week for a substantial period," says Mr Isaacs.

"Unfortunately, the argument is being pressed further and the key importance to Channel 4 of a reliable income is in some quarters being ignored," says Mr Dell.

Some appeared to think that the same quality television could be produced if there were competition for television—"Channel 4 provides no evidence for that propositon at all. Indeed, the opposite is more likely to be true. If the BBC took advertising in any significant measure, the whole basis for the funding of Channel 4 would come into question," emphasises Mr Dell.

It is a point spelled out in Channel 4's evidence to the Peacock Committee which is now looking into alternatives to the licence fee to fund the BBC.

Public service obligations

If the BBC were to take advertising, Channel 4 might come under strong conflicting pressures. The ITV companies might seek to lighten their public service obligations by transferring some of them to Channel 4. But they would also want the channel to compete more strongly in programme terms against the BBC to maximise audience and revenue earning opportunities.

If Channel 4 revenues came under pressure "we would be bound to buy more programmes cheaply off the shelf, and commission fewer from the ITV *companies and from independent producers*," Channel 4 warns, in its Peacock evidence.

The independent production sector, which has sprung up to serve Channel 4 programme needs, is widely seen as one of the channel's great achievements and one of the reasons for the diversity of its presentation.

In the financial year to March, Channel 4 made payments to 313 independent production companies and eight of them, including Brookside Productions, Diverse Productions and Limehouse Pictures received annual payments of more than £1m.

Independent producers provided 24 per cent of the hours of programme transmission for 43 per cent of the channel's programme costs. The difference between the two figures comes from the fact that many of the independents work in expensive programme areas, such as drama. The ITV and ITN slice—34 per cent of the hours for 39 per cent of the cost—reflects a higher proportion of studio based programmes.

Channel 4 also claims steady patronage figures. Those who watch the channel at least once a week has risen from 50 per cent of the population in March 1984 to 74 per cent this March. Apart from one week in January the channel has not reached the 10 per cent share of the total television audience which was the target for the end of its first three years on air—now fast approaching.

Channel's share of the audience

For the week-ending September 8, for instance, Channel 4 and the Welsh Fourth Channel (S4C) together accounted for 7.7 per cent of the total television audience. As usual, *Brookside* the channel's own soap opera topped the ratings but the top 10 also included American imports such as *Hill Street Blues*, *Lou Grant* and *The Mary Tyler Moore Show*. The channel is still not paying its way in terms of advertising revenue raised.

Mr Jeremy Isaacs, the Channel 4 chief executive, argued recently that, in the last financial year, Channel 4 obtained a share of total independent television audience that matched the share of revenue handed over.

"They paid us 12.3 per cent of their revenue. Our share of their audience averaged 12.5 per cent," Mr Isaacs said. The fact remains, however, that total ITV advertising revenue raised from Channel 4 last year totalled £75.2m (excluding TV-am and S4C) compared with a Channel 4 subscription of £111m, although the ITV companies can offset some of the balance against Treasury levy.

Mr Hugh Dundas, chairman of Thames Television complained last week about the "burden" of paying for Channel 4 and said that the net cost of the channel to the company had been £1.5m during the year.

Channel 4 does attract a disproportionate number of young people and "up-market" groups, both traditionally light ITV viewers.

Apart from independent television production, Channel 4 has stimulated the British film industry through its regular *Film On Four* slot. This role was explicitly recognised by the Government when Channel 4 became one of four founding shareholders of British Screen Finance Consortium, the private sector successor to the Ntaional Film Finance Corporation.

Channel 4 has also been active in creating programme production allegiance with other European broadcasting organisations. Six organisations plan to spend £39m to produce 100 hours of drama. The hope is to produce high quality drama at a fraction of the cost it would cost each television company individually.

As Channel 4 moves towards the end of its third year on air, increasing thought is being given to the "second phase" of its development.

Seeking better relationships

Talks are well-advanced with the IBA and the ITV companies to put Channel 4 finances on a more long-term footing. The plan is to try to agree a fixed percentage of ITV revenues — probably around 16 per cent which would automatically go to the channel. This would remove the need for annual *negotiations* although obviously ITV revenues can fall as well as rise.

The channel is also paying increasing attention to improving long-term relations with independent producers. There have been some bitter complaints that Channel 4 has been abusing its near-monopoly position as a customer for independent production by squeezing rates down as low as possible and taken some small companies to the edge of bankruptcy by delaying decisions on whether or not ideas are to be accepted or contracts renewed.

Channel 4 recently met a number of independent producers to discuss improved relationships.

Channel 4 considered, but ruled out the principle of setting aside a proportion of airtime or money to a number of leading independents to provide stability of work.

The channel management have, however, undertaken to keep independents better informed on its longer-term plans and to increase the "hit rate" of ideas accepted.

As Channel 4 enters its second phase of development, Mr Justin Dukes, Channel 4 managing director believes: "We are set fair to continue making available the effective choice in broadcasting which we were set up to do."

Raymond Snoddy

The programme commissioning process for Channel 4

- Development
- Ideas submitted to commissioning editors
- Commissioning editors acknowledge
- Commissioning editors evaluate ideas and costs with proposer and programme cost controller
- *Proposer notified of* programme status
- Recommended projects submitted to commissioning meeting
- Idea accepted: commissioning form *signed and* programme acquisition executive assigned
- Proposer notified (no commitment) and pre-contract memo sent out
- Commence negotiations
- Internal deal memo completed for programme finance consideration
- Deal Letter issued by Programme Acquisition (Channel 4 now committed)
- Contract issued and signed
- Production started
- Monitoring of editorial, financial, contractual and IBA requirements
- Production completed
- TV Times billing drafted
- Programme manager notified of completion
- Outstanding materials delivered and acknowledged
- Material processed and viewed
- Presentation prepare for transmission
- Programme transmitted
- Audience figures assessed
- Programme distributed

Channel Four Television

● **Income from the IBA and programme payments to the Independent Television companies and independent producers.**

Britain's Independent Television companies have the right to sell advertising on Channel 4 and retain the proceeds. The independent companies also produce programmes for Channel 4, for which the Channel pays negotiated market prices.

The net advertising revenue obtained by the independent companies for advertising on Channel 4 in the year to March 31 1985 was £75.2m.

Net advertising revenue on ITV (excluding TV-am, Channel 4 and S4C) in the same year was £826.4m. The subscription of £111m paid to Channel 4 therefore represented 12.3 per cent of total ITV and Channel 4 advertising revenue for the year.

Year ended March 1985	Subscription received by the IBA £m	Programme payments by Channel 4 £m
Anglia	8.1	1.2
Border	0.1	0.3
Central	18.0	1.7
Channel	—	—
Grampian	6.5	0.3
Granada	18.9	3.5
HTV	8.7	0.8
Lond. Weekend	15.7	5.5
Scottish	7.2	0.8
Television Sth.	15.1	1.2
Television SW	2.1	0.2
Thames	22.8	5.5
Tyne Tees	6.0	3.2
Ulster	0.2	—
Yorkshire	13.6	3.1
ITN	—	8.0
	139.6	
Less amount paid by the IBA to the Welsh Fourth Channel Authority	(25.6)	
Subscription received by Channel 4 and programme payments made to ITV companies	111.0	34.8

Source: IBA/Channel Four.

Architecture

Colin Amery

Girouard's gift

It was no accident that the architectural historian Mark Girouard was to be found on the great staircase of the old St Pancras Hotel last week at a party to celebrate the publication of his latest book, *Cities and People* (Yale University Press, £16.95). He had chosen this somewhat unlikely location for a good reason: it is one of the most glorious and least known Victorian interiors in the country. In an action typical of one of the best architectural writers in the world he demonstrated the side of his work that has always been practical—the saving of old buildings.

In this country we have long been fortunate to have scholars and writers on architecture who are prepared to campaign and spend time on endless committees to protect the best of the past and encourage the best of the present. Girouard, for example, sits on the Royal Fine Art Commission, scrutinising the work of present day architects, and continues his association with the Spitafield Historic Buildings Trust of which he was one of the founders.

I have always been intrigued by Girouard's capacity as a historian to operate so effectively on paper and in the world. There have not been many Slade Professors of Art who have squatted in near-derelict Georgian houses while the demolition men lurked outside. Not many authors have spent their literary prizes on hiring an aeroplane to make a last minute dash to try and save the great complex of warehouses at Cutlers' Gardens in the City. Even fewer have occupied the London offices of property developers refusing to budge until negotiations could begin to save part of Spitalfields.

Much of his passion for architecture is communicated through his books but it is not just an aesthetic interest, Girouard pioneered the social history of architecture. It is no longer possible to look at an English country house without being supremely conscious of the way it was used.

It was in 1978 that Yale University Press first published *Life in the English Country House*, described then as an architectural and social history. The same sub-title appears on the latest book on cities, proving again that there is no way of completely understanding architecture without understanding the society that produces it.

Girouard is not alone among writers in his dedication to the return to original sources. He is alone in his gift for lively writing about often recondite areas of his subject.

I feel his influence has been underrated. It was that wonderful volume on the Victorian country house that canonised the movement for the appreciation of Victorian architecture. It also generated that kind of popular fascination for life above and below stairs that now sustains much of the public interest in the properties of the National Trust.

Without Girouard would Cragside and Standen have been so effectively saved? When Girouard's serious face appeared above the rooftop of St Pancras in the Victorian episode of the BBC's *Spirit of the Age* his enthusiasms reached the nation's sitting rooms.

St Pancras Chambers, formerly the hotel, is one of the finest Victorian Gothic buildings in the country. The staircase where the Girouard launch was held is one of the most powerful spaces in London. To take a glass of wine in front of the painted niche on the main landing gave one an opportunity to look into the mural of a *Medieval garden of love*. Red walls glows with golden *fleur de lys* and corridors wide and splendid stretch into apparent infinity. One of the most exciting architectural experiences in London is to look down on to the platforms beneath the great iron and glass vault from the solid heart of the former hotel.

Until recently St Pancras Chambers have been the unlikely offices of Travellers Fare. Now the whole place is empty and the British Rail Property Board is negotiating with likely tenants. Although they will be able to acquire the premises for a nominal sum they will be faced with large bills to repair and convert the elephantine splendours. It would make one of the world's most spectacular hotels once again. An announcement is due in a few weeks.

Mark Girouard says that he has been wandering round the unvisited palace of St Pancras since he was in his twenties. Security is tighter today and it is a scandal that such a treasure is so inaccessible.

The Girouard gift is to make accessible the hidden pleasures of architectual history. His latest book is a model of the genre that he has perfected in partnership with his enlightened publishers. *Cities and People* should excite the awareness of people all over the world and make them look at their suuroundings with new knowledge. Much of the power of the books is that they are never stuffy and always richly illustrated. You are enticed by the illustrations into the life of Byzantium, Bruges or Berlin. You are informed by the text about the night life of contemporary Tokyo and the passing show outside Girouard's windows in Notting Hill. Wherever you are with him Girouard opens your eyes and quietly makes you think.

Roger Taylor

What future for the sleeping palace of St Pancras?

Closing Proms/Albert Hall

Andrew Clements

The second of the Swedish Radio Orchestra's appearances on Thursday produced one of the major revelations of the entire Proms season. The latter half of its programme was orthodox enough—Chaikovsky's First Piano Concerto, items from Prokofiev's *Romeo and Juliet*—but to begin the evening Sixten Ehrling had conducted the first British performance of the Second Symphony by Wilhelm Stenhammar.

In his native Sweden Stehhammar's status is roughly comparable with that of Elgar in Britain, and the straddled much the same period of late romanticism. Born in 1871, he only found his own creative voice in the last 15 years before his death in 1927. Earlier works show a more or less unassimilated mixture of Brahms, Wagner and Liszt. The truly personal Stenhammar, however, is taken to be represented by the last three of his six string quartets, the orchestral serenade and his second symphony in G minor, completed in 1915.

In the symphony Stenhammar appears as a classically correct composer, turning back to Beethoven for his model rather than to more recent 19th century figures. For that reason his music sometimes sounds akin to Bruckner, though without his spaciousness and sense of proportion. There are occasional echoes too of Stenhammar's friends Nielsen and Sibelius. The Second Symphony begins most impressively with a striding, rangy theme that promises a weighty symphonic argument lasting 45 minutes and capped by a fugal finale echoing Bruckner's Fifth and driving through to an emphatic conclusion. At times there is perhaps a tendency to rely too much on academic polyphony to carry the music forward, but the clean cut of the themes and the straightforward logic of the construction are quite admirable. There seems to be no reason why the G minor symphony should not be heard as regularly in concert as, say, early Sibelius. Ehrling delivered an exemplary, quite relaxed account.

*

Proms diehards may have fulminated against the intrusion of American music into the sacred rates of the Last Night, but they can still be reassured that the penultimate night is devoted to Beethoven's Ninth Symphony, given on Friday by the London Philharmonic Orchestra and Choir conducted by Klaus Tennstedt. Tennstedt had whetted appetites with an agreebale an account of Mozart's Jupiter Symphony as one could want, flexible, expressive and a good advertisement for big-band Mozart. Yet the Beethoven then proved something of a disappointment, not just on account of a strangely matched and ill-tuned quartet of soloists—the bass Gwynne Howell a noble exception — but because the interpretation seemed continually to veer in and out of focus.

One can imagine Tennstedt's Ninth at its best, imagine also the emotional power it could generate. Here only traces of that potential could be detected—in the surge of the first-movement development, and the free rapture of the slow movement's main theme. But just as one noted those landmarks, one also noted the points where such decisive shaping was lacking. There was a frankly dull dull *scherzo* and undramatic finale — until the chorus temporarily set pulses racing with its launching of the double fugue.

ECO/Festival Hall

Dominic Gill

The English Chamber Orchestra's Silver Jubilee concert on Thursday was one of those hot, humid gala evenings—plebs in the terrace, a crush of penguin suits and evening dresses in the stalls—at the which the actual quality of the music-making is less significant than the fact that everybody is determined, but determined, to enjoy themselves.

Jeffrey Tate was the conductor. The ECO's performances under his baton in the first half of the programme were not especially distinguished: a fast and slightly frayed *Midsummer Night's Dream* overture; an amiable but tentative, unidiomatic account of Copland's *Quiet City*. I should guess that Max Bruch is not a composer whom Tate instinctively warms to: he restricted his role, in any case, to following Isaac Stern, the soloist in the Bruch violin concerto, correctly but at a respectable emotional distance. Stern was on commanding form, and played his part exceptionally straight, without a hint of schmaltz, and with much bravura: impressive.

Galas usually mean arias, and after the interval Thomas Allen gave us two—"non piu andrai" from *Figaro* and "Largo al factotum" from *Il barbiere di Siviglia*. But the serious, buoyant, closely focused music-making for which Jeffrey Tate and the ECO have so often been praised did not begin until the evening's finale ot Mozart's E flat symphony K543: a challenging, quicksilver account, beautifully clear in every texture and line, unflagging in its momentum. The sublime andante was the symphony's heart, from and towards which all other roads seemed to lead: the kind ot implicit dramatic pacing in which Tate excels. The finale—how could Berlioz have misunderstood it so completely?—was carried forward to its culmination on a joyous spring breeze.

Götterdämmerung/New Theatre, Cardiff

David Murray

Not, for some reason, "*Twilight of the Gods*," though the Welsh National Opera sings it lucidly in Andrew Porter's translation. With it the Welsh *Ring* was completed on Saturday, to general satisfaction. One of the minor costs of Severn Bridge maintenance was that several London critics missed the Norns, but I don't doubt that they matched the standards of the rest.

As throughout this friendly *Ring*, production and designs are by Göran Järvefelt and Carl Friedrich Oberle, and the conductor is Richard Armstrong. Apart from the newly-arrived Gibichung family, the principals have all survived from *Siegfried*. Järvefelt made that opera into a sunny romantic comedy, or rather demonstrated that it plays very well in that vein; no comparably special view is taken of *Götterdämmerung*, though an intimate-scale *Götterdämmerung* (the New Theatre is not large, and the orchestra has to preempt half the stalls) is already something special.

Oberle's settings are rocky and austere, but there are imposing altars to different Norse gods in Act 2, prompted by Hagen's wedding instructions to the vassals, and useful for the trio when Hagen invokes Fricka while Brünnhilde and Gunther call upon Wotan. The Valhalla conflagration remains unseen (though the chorus peers worryingly into the Front Circle as if it were imminent there), nor does the Rhine brim over. At the end only a pondering Gutrune is left on stage: since the last music is irrevocably associated with Sieglinde's joy at finding herself pregnant with Siegfried, are we meant to believe that Gutrune is carrying Siegfried's baby *und so weiter*?

That would be a silly question, but perhaps it was silly to invite it. *Otherwise there* is nothing any more eccentric in the staging than Hagen's uncomfortable habit of sitting on the floor. The costumes have a good homespun ethnic look, from more northerly latitudes than usual. Psychological reactions between the characters are rendered very carefully; Hagen's and Gunther's anxiety that Gutrune should be the first thing Siegfried sees when he has quaffed the potion verges upon farce.

The production does not aim at heroic scale, and Jeffrey Lawton's chunky, cheerful Siegfried is the same eager innocent whom we met in the previous opera. The conductor, I suspect, has more of a yen for *majestic breadth: the duet at* the first (I mean, after the Norns had left and I arrived) was immensely deliberate and warm, at the expense of any youthful thrust. The first Gibichung scene seemed to take forever, since the slowly unrolling orchestral tapestry was not matched by any elaborated

Anne Evans, the Brünnhilde, can sustan a slow line splendidly, and Armstrong indulged her with innumerable rallentandi in the duet where the less seasoned Lawton Siegfried would have been happier to get on with it. Equally he favoured the rich mezzo timbre of Kathryn Harries, a modestly touching and intelligent Gutrune, just when the production was introducing her as particularly frail and shy. With the arrival of Patrica Payne's urgently impassioned Waltraute, the tempi came sharply to attention, and thereafter held good; Act 2 was a swift, unhesitating span, and the riches of Act 3 were explored with mature confidence.

Though it was an unlucky night for solo horns, the WNO orchestra gave Armstrong beautifully graded playing — the more impressive in the *tricky* acoustic limits of the theatre. *He has become a Wagner conductor of parts*, evident though Goodall's benevolent tutelage is: besides the shapely solidity of the whole reading, there were four or five passages brought to vital expressive life as I have *not heard them before*. The WNO chorus was as exciting as expected in the vassals' *setpiece* (Järvefelt sensibly keeps only a small company for the Act 3 hunt), and the Rhinemaidens—Eirian Davies, Deborah Stuart, Roberts and Patricia Bardon—were seductive, well-tuned and dramatically alert. (I am sorry about the Norns . . .)

From Act 2 the Lawton tenor showed more of a proper ring, and his naturalness in quick exchanges is a real virtue. Miss Evans curdled superbly for Act 2, with vengeful determination and despair etched into each phrase, and gave us an expansive Immolation; with more variety in her appealing clarinet-timbre she will be a noble Brünnhilde. As Gunther, Jacek Strauch sounded strong and cultivated, though he is not a *developed actor* (nervous finger-twiddling hardly expresses Gunther's plight).

Nicholas Folwell again presented a nervy, subtle Alberich. John Tranter (who was the small vicious dragon in Siegfried) makes as much of Hagen as less than ideal vocal means will permit—indeed, his thinnish bass (weak in the lower middle, just where Hagen should sound most commanding) carried the Watchsong remarkably well, through careful good sense. And as a dramatic villain, he operates teeth and eyebrows to excellent effect.

Zoe Dominic

Jeffrey Lawton and Kathryn Harries

The Real Inspector Hound, The Critic/Olivier

Michael Coveney

The Ian McKellen and Edward Petherbridge company at the National have chosen two very funny plays about the theatre regarding itself and being commented upon by hapless scribes. While there are similarities between Tom Stoppard's *The Real Inspector Hound* and Sheridan's *The Critic*, the two productions, by Stoppard and Sheila Hancock, attempt no forcing links. Birdboot and Moon, *for instance*, the critics witnessing a wickedly *ingenious country house* thriller spoof, are no close relations of Dangle and Sneer spying on Sheridan's satirical farrago about the Spanish Armada.

Vicarious entanglement with *the creative process* is a common theme, and William Dudley's designs are extravagantly meticulous in conjuring the precise theatrical eras. Stoppard's critics are discovered pinned against a photographic reproduction of the Old Vic interior on a sepia-tinted scrim, while Puff's box of tricks are unpacked in a marvellous Georgian playhouse of false prosceniums, masque-like effects and patriotic insignia.

The evening, though, as Birdboot might opine, is sporadically funny without being thunderously successful. In the case of both plays this is because the direction is less than red hot. In the case of *Hound, a delightful little play* has not survived the overblown treatment. Too many lines are inaudible and too much of the acting over-strained.

Roy Kinnear as the bulging *first-string* Birdboot and Petherbridge as his emaciated second-string colleague (a man whose presence is defined by Higgs's absence) are a finely contrasted double act. Although the production fails to make anything *of the moment when the critic* steps over the footlight and on to the stage, Kinnear's rotating guilty wonderment is some compensation while Petherbridge sits primly checking his notes and casting furtive glances at imaginary neighbours.

The trouble in both plays stems from the parodistic episodes, first of the thriller and second of the romantic *historical* pageant. We have coarse exhibitions of parody *without any trace of affection* and very little grace. Selina Cadell's cleaning lady is stiff-hipped grotesque, the young country house things of Greg Hicks and Claire Moore wooden amateur stereotypes. Eleanor Bron is a waftingly ludicrous widow and Jonathan Hyde, made up to resemble Michael Gough, best of the lot as a tetchily wheelchair-bound major.

The playing seems to me to lack any slyness or real sense of *fun, an impression* rammed home by the arrival of Ian McKellen's entirely rigid and painstakingly unfunny Inspector equipped with fog horn and swamp-boots. The tea scene, with its monumental pauses between the drudge's offers of milk, sugar and biscuits, is the high point, but the best acting is the most understated and devastatingly unmanufactured expressions of gasping disapproval emanating from Roy Kinnear, the casual sighs and crossing of legs by Petherbridge as the play trundles slowly on.

Hound, with Peter Shaffer's Black Comedy, is one of the best short comedies since the War. *The Critic*, of course, is an unrivalled stage burlesque in which Olivier was once a famous Puff. I had only previously seen the play on television, with Alan Badel's brilliant *Fretful* Plagiary stealing all honours. In that role, Petherbridge is bloodlessly restrained, only casually inquisitive of the bad reports of his plays. And as Puff, McKellen offers a leaping leprauchaun in ginger fright wig and green jacket whom I suppose we must take to be a send-up of Sheridan. This performence takes *shape eventually* when we move to the theatre where Puff becomes a capering goggle-eyed participant in his own play.

The famed first act is shorn of the Italian singers but more importantly of its wonderful sentence rhythms and architechtonic finesse. No expense is spared, however, on the spectacular effects which yield painted back-cloths of Tilbury Fort, Stonehenge (even though the scene has been cut by Puff's actors) and rustic pastures by the Thames *as the Spanish* galleons threaten to invade Britain before being beaten off with a rousing chorus of "Rule Britannia." As all hell breaks loose, Dudley's Georgian threatre collapses literally around the heads of Dangle, Sneer and Puff, a brilliantly executed sequence that gives McKellen a superb purchase on the final line.

Along the way we have a mysteriously balletic beefeater (Greg Hicks), a violently lisping Spanish grandee (Peter Needham), a sheperdess with an even more pronounced speech defect (Eleanor Bron) and, in two notably well drilled passages, troupes of Spanish *knights and satin-robed judges*. It would be impossible for any production to re-invent Sheridan's satirical attack on Lord North's ministry shaking in a fever of inactivity while the nation awaited either a French or Spanish invasion. So pantomime proves the best policy.

Some of the pantomime is *excellent and one or two of the* gags very nearly original. Hugh *Lloyd is a picture of slack-jawed* desolation as the carpenter pressed into service as John Bull, Julie Legrand garishly ecstatic as both the mad heroine of the docks, Tilburina, and the elevated Queen Elizabeth. On the sidelines, Jonathan Hyde scores waspish bullseyes as Sneer and Laurance Rudic is officiously precise as whistle-blowing stage-manager and prompter. Sheridan for once and perhaps, in the end, *justifiably*, is more fun on the eye than on the ear.

The three Bs of British jazz on tour together

The bands of the three Bs of British jazz — Barber, Bilk and Ball—aré touring England and Wales for the first time this month. Trombonist Chris Barber, clarinettist Acker Bilk and trumpeter Kenny Ball are among the longest established jazz bandleaders in Britain (Humphrey Lyttelton is the other). *A total of 22 musicians* will be playing at each concert.

The venture has been made possible by Carlsberg, the Danish lager brewers, who have sponsored jazz on both sides of the North Sea for several years. One of the venues on the 12-date tour which started last weekend is Northampton where Carlsberg have their UK brewery. *Among other places to be visited* are Cardiff, London (Royal Festival Hall), Poole, Eastbourne and Stockport.

Arts Guide

Music/Monday. Opera and Ballet/Tuesday. Theatre/Wednesday. Exhibitions/Thursday. A selective guide to all the Arts appears each Friday.

Music

Sept 13–19

LONDON

Philharmonia Orchestra and Chorus, conducted by Giuseppe Sinopoli, with Rosalind Plowright, soprano; Brigitte Fassbänder, mezzosoprano. Mahler's second symphony. Royal Festival Hall (Tue). (928 3191).

London Philharmonic Orchestra, conducted by Klaus Tennstedt, with Julia Varady, soprano; Waltraud Meier, mezzosoprano; Piero Visconti, tenor; Paata Burchuladze, bass. Verdi's Requiem. Royal Festival Hall (Wed).

City of Birmingham Symphony Orchestra, conducted by Simon Rattle, with Katia and Marielle Labeque, pianos. Mozart, Bartok and Elgar. Barbican Hall (Wed). (638 8891).

Chamber Orchestra of London and Tallis Chamber Choir, conducted by Philip Simms, with John Graham Hall, tenor. Händel. Royal Festival Hall (Thur).

English Chamber Orchestra, conducted by Daniel Barenboim, with Mati Haimovitz, cello. Schubert, Saint-Saens and Mozart. Barbican Hall (Thur).

PARIS

La Grande Ecurie et la Chambre du Roy, conducted by Andrew Parrott, Gill Feldman, soprano. Bach (Mon). Saint-Severin Church.

Laurent Cabasso, piano recital (Tue 8.30pm). Sorbonne, Amphithéâtre Richelieu.

Nouvel Orchestre Philharmonique and Radio France choir conducted by Sir Charles Farncombe: Händel - Esther (Tue). Assas Law Faculty.

Paul Kuentz Choir and Orchestra: Art of Fugue (Tue). Saint-Severin Church.

Yehudi Menuhin Competition finals with Orchestre de Paris conducted by Claude Bardon (Tue and Wed). Salle Pleyel (561 0330).

BRUSSELS

Palais des Beaux Arts: European Baroque Orchestra with Jaap Van Linden, cello (Tue), Netherlands Chamber Orchestra with Beatrice Nichoff, soprano and Jard van Nes, alto. *Händel's "Theadora"* (Wed); Belgian National Orchestra conducted by Mendi Rodan with Anne-Sophie Mutter, violin. Brahms, Prokofiev. (Thur).

NEW YORK

New York Philharmonic (Avery Fisher Hall): *Zubin* Mehta conducting; L. Subramanaiam, violin; John Cheek, bass *baritone*. Copland, Subramanaiam, Sohal (Tue); Zubin Mehta conducting, Garry Graffman, piano: Korngold, Schubert (Thur). Lincoln Center (874 2424).

TOKYO

Mikiko Nakamura (piano): Satie, Takemitsu, *Poulenc, Brahms*. Komaba Eminence (Tue). (401 9561).

Yomiuri Nippon Symphony Orchestra (conductor: Rafael Frühbeck de Burgos): Beethoven, Strauss. Tokyo Bunka Kaikan (Wed). (270 6191).

New Japan Philharmonic Orchestra, conducted by Seiji Ozawa: The Damnation of Faust (Berlioz). Tokyo Bunka Kaikan. (Thur). (490 1531).

Wiener Blockflötenensemble: Renaissance music. Ishibashi Memorial Hall (Thur). (843 3043).

Alfred Brendel (piano): Mozart, Beethoven, Schubert. Showa Women's College, Hitomi Memorial Hall, near Sangenjaya. (Thur). (353 2242).

National Arts Centre Orchestra of Canada, conducted by Franco Mannino: Rossini, Faure, Saint-Saens, *Somers, Mozart, Gotanda U-Port*, Kani Hoken Hall. (Thur). (449 8477).

ITALY

Milan: Teatro alla Scala: Autumn concert *season opens* with *Händel's* oratorio Israel In Egypt with the Monteverdi Choir and the English Baroque Soloists conducted by John Eliot Gardiner (Tue). On Thur Kurt Sanderling conducts and the pianist is Bruno Leonardo Gelber. Beethoven. (809 126).

VIENNA

Duo evening with Saverio Trombetti, flute; Marina Cavana, piano. Scarlatti, Bach, *Mozart. Bösendorfersaal* (Mon).

Mozart Boys Choir: Mozart, Haydn, Schubert. Evangelischekirche. (Wed).

Vienna Bach Soloists, led by Ernst Wedam, with Maria Ilona Meroth, soprano; Herbert Boeck, oboe; Alexander Krins, violin. Bach, Händel. Minoritenkirche. (Thur).

Sponsorship/David Churchill

Hamlyn aids Royal Ballet

The Royal Opera House has secured one of its largest-ever private sponsorships to stimulate a new audience for ballet. *Paul Hamlyn, chairman of* Octopus Books and the man who popularised classical music with his *Music for Pleasure* label, has agreed to buy—for an estimated £250,000—some 22,000 seats as Covent Garden over the next two years to be sold exclusively to those who have never seen the Royal Ballet perform.

Prices will range from £1 to £3, instead of the normal top price of £21 for the ballet, for six performances next January of popular classics such as *Giselle and the Nutcracker*. A further round of subsidised performances will take place the following year.

Seats for these special performances will be made available by post rather than through the normal box office channels, and new ballet-goers will be culled from a wide variety of groups and voluntary organisations.

Undoubtedly, some people will be able to get tickets who are not genuine first-timers, but the Opera House hopes that out of the 22,000 seats that will be filled at discount prices a significant proportion will be sufficiently captivated by the ballet to go again.

The Opera House management is well aware that much of the current buoyancy in bookings relies heavily on the tourist boom which has proved in the past to be a fickle base. In addition, there is considerable sensitivity to criticisms that the Opera House is too élitist. With the impending demise of the GLC, even such established institutions as the Opera House need to consider their public image in the looming scramble for funds.

Hamlyn, who last month *set* up the biggest publishing merger by linking up with Heinneman, decided to sponsor the ballet (through his Paul Hamlyn Foundation) "because I'm a great supporter of Covent Garden and I want more people to enjoy the arts." His close links with the Opera House extends to its chairman, Sir *Claus Moser, who is a* non-executive director of Octopus Books.

Hamlyn's considerable personal fortune, built up over the last couple of decades by an aggressive book marketing policy, has apparently not blinded him to the high cost of enjoying the arts. "I can still remember the thrill of my first visit to Covent Garden and the efforts made to save enough money to get there," he recalls.

FINANCIAL TIMES
BRACKEN HOUSE, CANNON STREET, LONDON EC4P 4BY
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Telephone: 01-248 8000

Monday September 16 1985

Latin America and the IMF

THE Inter-American Development Bank's 1985 report, published today, is an interesting if somewhat contradictory document. On the one hand, it contains surprisingly sharp criticism of the International Monetary Fund's approach to the Latin American debt crisis. This is bound to have an impact at a time when the world's top bankers and finance Ministry officials are preparing for the IMF's annual jamboree next month in Seoul. On the other hand its economic analysis contains some quite optimistic forecasts for the main debtor nations which draw the string from most of the criticisms. In a nutshell, the IDB seems reluctantly to be admitting that while austerity hurts, it also works: Latin America can both repay its debts and enjoy modest economic growth.

The criticism of the IMF occurs mainly in a special chapter contributed by Professor Albert Fishlow of the University of California at Berkeley. He points out that the main Latin American debtors now face a debt servicing burden that is more than double the level of reparations which Germany found intolerable in the 1920s. The commercial banks, he seems to suggest, are deluding themselves if they think the big trade surpluses generated by the debtors in the past two years mean that the debt crisis is over.

Prejudicing growth

Rather, the attempt to service very large debts is prejudicing the countries' longer-term growth potential and perhaps reducing their ability to repay loans in the future. The export of capital in the short term is a drain on domestic savings and severely restricts scope for domestic investment. While IMF stabilisation policies may successfully solve short-term adjustment problems, they do not constitute adequate development strategies for the longer term.

Officials preparing for Seoul are unlikely to be impressed by these arguments. The criticism is not matched by positive suggestions. The argument for some form of default seems to be hovering in the background but is never made explicit; there is no suggestion that any debt should be forgiven. The gloomier passages in the IDB report are in any case hardly consistent with its baseline economic forecast for the big debtors over the next five years. This assumes, cautiously, that international interest rates remain at about mid-1985 levels until 1990; that the net real external debt of the big seven Latin American borrowers remains constant; and that world trade grows only sluggishly. The result is quite encouraging; average annual real growth of investment, imports and GDP to 1990 of 7.4 per cent, 9.5 per cent and 3.7 per cent respectively.

This is not spectacular and will underpin only a modest improvement in living standards. But it constitutes a dramatic reversal of the privations of 1981-1984 when imports were cut in real terms by 7.1 per cent a year. Moreover, the projected increase in investment compares favourably not only with the annual average decline of 6.6 per cent between 1981 and 1984, but also with the annual growth of capital spending of 5.9 per cent between 1976 and 1980—years of unrestrained borrowing. The scenario undermines the claim that the drain on domestic savings caused by heavy interest repayments will badly prejudice domestic investment.

This relatively encouraging central forecast is matched by some sensible comments on economic policy. There is a strong emphasis on decentralisation, market mechanisms, the need to use existing plant more efficiently, and on the case for cutting back public sectors. The IDB also calls for realistic exchange rate and interest rate policies. Whether the debtor nations will listen to this advice is another matter.

Debt not constant

One point, however, deserves careful consideration in Seoul next month. The IDB's central scenario makes the seemingly undemanding assumption that Latin America's net external debt remains constant in real terms over the next five years. This would mean a rise of, say, 5 per cent a year in nominal terms. This may be desirable, but it is by no means assured. In money terms, net debt has contracted by about 5 per cent a year since 1983, and constant real debt requires either that the commercial banks extend new money more willingly or that the debtors when necessary can opt to meet only real, as opposed to nominal, interest payments. The IMF can play a crucial role in ensuring that one of these options is available. If it evades its responsibility and Latin America's debt is allowed to contract too rapidly in real terms, some of the gloomier fears expressed in the IDB report could yet prove justified.

Timely trip to the Middle East

MRS MARGARET THATCHER this week pays the first visit by a British Prime Minister to Egypt since Winston Churchill during the Second World War and the first ever by a British Premier to Jordan. For a nation which has been so intimately involved in the histories of both countries and which contributed so significantly to the challenges those countries face today, the length of the British absence at this level is hard to explain or to justify. That Mrs Thatcher has chosen to accept the long-standing invitations from Cairo and Amman has been warmly welcomed by President Mubarak and by King Hussein, both of whom are key players in the vital but endlessly frustrating search for a just solution to the still potentially explosive Arab-Israel conflict.

Mrs Thatcher appears to have chosen her moment well, with the next few months likely to prove decisive for the future of the peace initiative launched in February by King Hussein and Mr Yassir Arafat, chairman of the Palestine Liberation Organisation.

Refugees

The agreement envisaged negotiations with Israel aimed at a future for the occupied West Bank and Gaza in which self-determination for the Palestinians would be expressed in confederation with Jordan. The principle underlying those negotiations would be an exchange of land in return for peace with Israel, as outlined in United Nations Resolutions 242 and 338. However, Mr Arafat has not been able to bring himself specifically to endorse those Resolutions because they only refer to Palestinians as refugees. Nor has he been willing unequivocally to renounce the armed struggle against Israel.

The U.S. wants Mr Arafat to go further before it will agree to talks with a joint Jordanian-Palestinian delegation, a view which is more or less echoed by the British Government. Mrs Thatcher has been willing for senior Foreign Office officials to talk to Mr Arafat but has ruled out Ministerial contacts with PLO executive members.

Undoubtedly, Mr Arafat has substantially moderated his views since the military defeat of his forces in Lebanon during the 1982 Israeli invasion. The divisions within the PLO and the hostility of Syria towards the agreement with Jordan illustrate how far he has moved. Certainly, King Hussein believes that Mr Arafat is sincere in his wish for a negotiated settlement with Israel and is now prepared implicitly to accept Israel's right to live in peace behind its 1967 borders. Israel, however, remains totally unconvinced that Mr Arafat or the PLO are capable of changing their spots.

The U.S. is still wavering. It has been unable so far to agree on an acceptable composition of a joint Jordanian-Palestinian delegation with which President Mubarak suggested it should hold preliminary talks. If that delegation is to have any political weight it will have to include members who can speak for the Palestinians, yet the U.S. is still bound to its pledge not to meet overt supporters of the PLO.

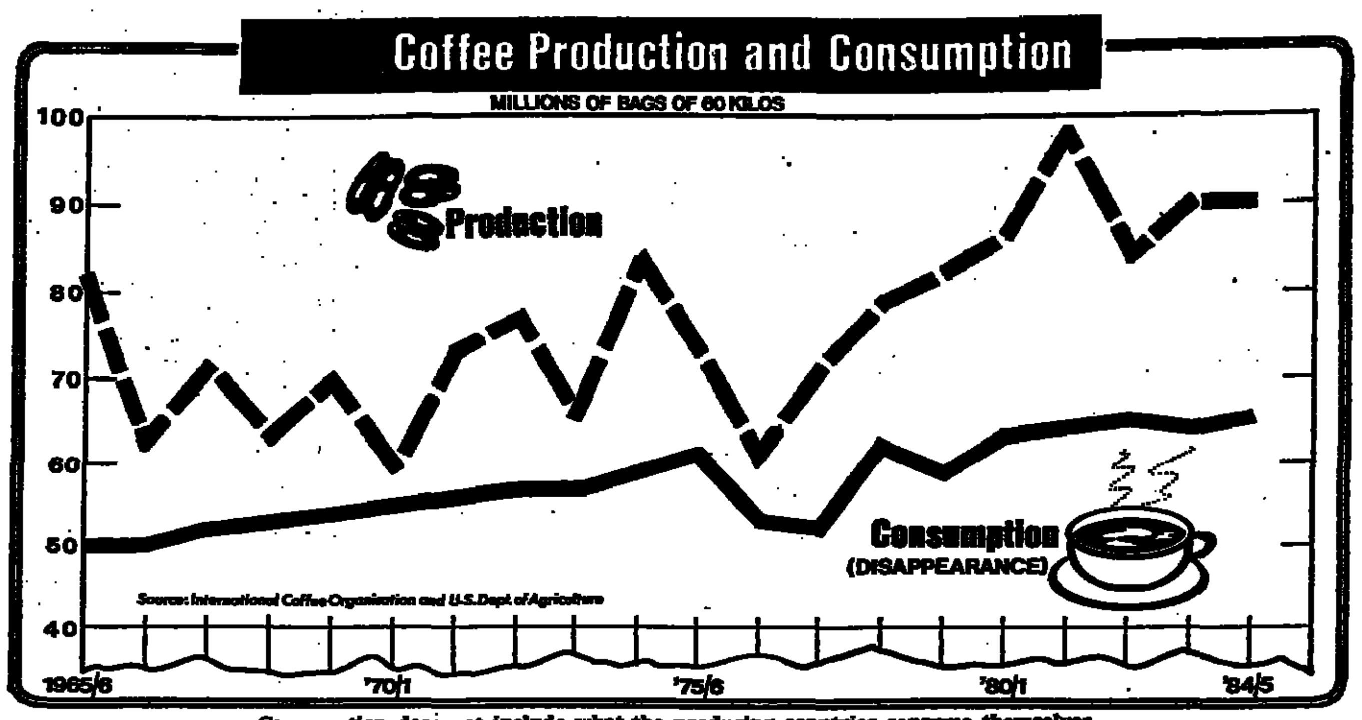
Mrs Thatcher is seeking to dampen expectations about her ability to do anything to break the log-jam. Britain, however, does have a wealth of experience in the region which no other Western power can match. Relations and respect for King Hussein are particularly deep, while there is a strong body of affection for Israel. The Prime Minister will underline her appreciation of Egypt's efforts towards peace by laying a wreath at the tomb of President Sadat and by stressing the role that Mr Mubarak is playing in continuing to assist the peace process.

Certainly, Mrs Thatcher has the opportunity now to focus world attention on the sincere efforts being made by Egypt and Jordan to bring a lasting Middle East settlement. It would be ironic if this week were to be remembered more for the success of British arms sales to the Middle East than its contribution towards peace.

INTERNATIONAL COFFEE AGREEMENT

The strains begin to tell

By Andrew Gowers



Consumption does not include what the producing countries consume themselves

EVERY year around this time, government representatives from 75 countries which produce and consume the vast bulk of the world's coffee descend on London to perform what seems like an obscure ritual dance, accompanied by much rattling of sabres.

It is, in fact, a negotiating session of the utmost importance for the $10bn international coffee trade and for a startling array of developing countries, in which producing and consuming countries haggle over the amount of coffee the growers are to be allowed to export over the next 12 months.

The International Coffee Agreement, of whose machinations the council meeting which begins today forms a key part, is widely regarded as the most successful of all inter-governmental pacts aiming to stabilise commodity prices.

But this year, it is coming under increasing strain. Coffee production remains on a basic rising trend, consumption is stagnant in most important markets, and consumers and a growing array of producers are expressing frustration at what they regard as the agreement's inflexibility.

If such pressures continue to mount, the consequences could be explosive, and not just for the coffee market.

Although it is regarded in the West as something of a non-essential product, coffee is vital to many countries in the developing world. Grown in 50 countries, it is the second most important commodity in international trade after oil. Sixteen nations in Africa and Latin America depend on it for more than 25 per cent of their export earnings.

Uganda, for example, relies on coffee for a good deal more than 90 per cent of its foreign exchange. For Brazil, the dominant force in the coffee trade, the product is still the single most valuable export, accounting for about 10 per cent of its export earnings.

The tensions in the coffee agreement come at an uncomfortable time for a number of other international commodity pacts, which are struggling to cope with a potentially lethal combination of factors; structural surpluses of supply over demand and growing ideological disenchantment in the West.

● The International Natural Rubber Agreement, for example, has found supporting the rubber market more and more of an uphill task in recent months as its buffer stock manager has struggled to absorb a glut of supplies, mainly from competing producers in South-East Asia.

An abortive round of negotiations on a successor to the present pact, which finally expires in two years, was held in Geneva in April. Against the background of plentiful supplies, consumers are complaining increasing loudly about the cost of financing the buffer stock, while producers, deeply unhappy with the low level of prices despite support buying—are pressing for a level of price support which looks quite unacceptable to the industrialised countries.

● Three rounds of talks on a new International Cocoa Agreement have so far proved similarly fruitless, with producers and consumers fundamentally at odds over whether such a pact should support prices as a form of disguised development aid, or merely stabilise them around a long-term market trend.

The present agreement, which expires next September, has in any case had its hands tied since its buffer stock ran out of money in 1982, and cocoa market prices have never been within its required range.

● Attempts to hammer out a new International Sugar Agreement with a view to holding prices up by restricting exports were abandoned last year in the face of the huge sugar surplus and the reluctance of leading exporters to cut back.

● Tin, too, has problems on the horizon. The International Tin Agreement ought to be renegotiated before June 1987. But in the face of another structural surplus of supplies, leading consumers such as West Germany are taking an extremely hard line. The high prices dictated by the present agreement, they argue, have depressed consumption and merely encouraged producers outside it, such as Brazil and even Britain (which belongs, but only as a consumer), to boost their own output.

With all this in mind, it is hardly surprising that the coffee pact could be heading for trouble.

Efforts to regulate the coffee market are almost as old as the commodity itself. Around 1,500 years ago in what is now Yemen, for example, coffee growers are said to have attempted for several centuries to protect their monopoly by preventing the export of seedlings.

When Brazil emerged as the world's leading coffee producer in the 19th century, it was not long before the country was faced with over-planting on a massive scale, and officials of the state of Sao Paulo tried to restrict the growth of plantations and to prop up prices by a programme of support buying on the world market.

But the first truly international attempt at market regulation came in 1940, when the U.S. signed the Inter-American Coffee Agreement with 14 Latin American countries.

The cement which held that pact together for the best part of a decade was the same mixture of economic need and political courtship which binds the current International Coffee Agreement: the relationship between Brazil, which accounts for nearly 30 per cent of all coffee exports, and the U.S., which absorbs about one-quarter of all imports.

Even Washington, for long a supporter of the agreement, is now expressing discontent

Washington has made no secret of its dislike of commodity agreements in principle, and quota restrictions in particular, as an artificial distortion of market forces. If anything, that feeling has strengthened under the Reagan administration—hence its refusal to have anything to do with preparations for a new cocoa pact, and its withdrawal from the International Tin Agreement.

But somehow, coffee is different. Despite the fact that the coffee pact is a classic cartel, State Department perceptions of the importance of the commodity to Brazil and other Latin American economies have traditionally overshadowed any ideological commitment to free trade.

"It's a nice way of subsidising all those countries and getting Europeans to help pay for it, and the important thing is that it's not obvious. You don't have to wring specific appropriations out of Congress," said Ms Bronwyn Curtis, director of coffee research with London analysts Landell Mills.

This year, however, even Washington has been expressing public discontent with the International Coffee Agreement. At a meeting in Guatemala last April, the U.S. representative said the administration would be forced to "reassess its position" unless producers put their house in order. So what is going wrong?

The immediate answer is that consumers became irritated at what they regarded as the unnecessarily high prices they had had to pay for their coffee over the previous 18 months. In the 1983-84 coffee year, prices rocketed as a result of the small size and poor quality of the Brazilian crop.

Consumers maintain that their problems in getting hold of adequate supplies were exacerbated by the tight level of export quotas in force at the time, and by the fact that quotas are rigidly and uniformly distributed throughout the year despite peaks and troughs in demand.

High prices persisted into last spring, compounded in Europe by the strength of the U.S. dollar, in which coffee is traded; last January, for example, consumers in France were having to pay between 12 and 15 per cent more for their purchases than 12 months previously.

The heat of that particular issue has now subsided somewhat, as prices tumbled during the summer with the arrival of more abundant supplies. But while it lasted, it did provoke some consumer governments to take a more searching look at the coffee agreement, and they did not like what they saw.

The most obvious structural problem is the continuing rise in and spread of production. The present pact calls for stringent controls on exports, but not on output, which has on the contrary been stimulated by the price support which the agreement provides.

Production has climbed from a trough of some 61m bags in 1976-77, the year in which a severe frost in Brazil wrought its worst damage, to an estimated 90m bags this year. While this does not match the peak of 98m bags reached in the early 1980s, it is still well above the average level of the past two decades.

Exports under quota, meanwhile, are firmly pegged at about 58m bags. In effect, this means two things: a continuing rise in stocks held by producers, following the large reductions made in the 1970s, and as in Opec, intense pressure on cash-hungry producing countries to break ranks from the cartel by exporting to countries outside the coffee agreement.

Last week producer stocks were estimated at about 55m bags, with an additional 5.29m in the hands of consumers. That in itself is no great worry to the coffee fraternity.

What does irk both the consumers and those producers keen on enforcing discipline in the agreement is the sales to non-members, which include most of the Communist countries.

The particular culprits here are the Central American countries like Costa Rica and Guatemala, which have quite small storage facilities and a particularly pressing need for foreign exchange, and Indonesia, a relatively new but increasingly important producer of low-quality coffee.

All these countries have been pushing out a record amount of coffee to non-members at bargain basement prices this year. Consumers like the U.S. fume at the sight of the Soviet Union and its allies—where demand is booming, in marked contrast to most of the West—getting coffee at prices up to 60 per cent lower than those they have to pay. In addition, some of this is widely believed to be finding its way back into high-priced official coffee agreement markets, making a small fortune for traders on the way.

While big mainstream producers like Brazil and Colombia have been huffing and puffing about discount sales outside the agreement, they have as yet shown little sign of being able to force through measures that would effectively penalise the practice—and Indonesia, for one, has publicly vowed to ignore such strictures.

The problem for Jakarta is acute. Its official export quota only covers about half its total production.

An increasing number of other producers, particularly in Africa, is also expressing discontent. No less than 16 have put in a request for increased quotas at this week's meeting.

Brazil is probably reasoning that it can hold off such demands this time round. But in September 1986, the whole issue of the distribution of quotas is up for discussion. It is an open question how much longer many of the apparently disadvantaged producers will be prepared to tolerate an agreement which in their view effectively institutionalises Brazil's dominant market share.

As a result — and partly as a stick with which to beat the producers — some consumers are beginning privately to canvass the idea of lifting quota controls altogether for a while, as in 1973, in order to allow the market to find a new equilibrium.

The prospect of the cut-throat competition which would be bound to ensue would, no doubt, fill the big producers with horror. It would also cause traumatic price gyrations on the world coffee market, and palpitations in the financial community and the State Department.

For these reasons, nothing so drastic is in prospect at the moment, and the chances are that this year, the coffee agreement will live to fight another day. Consumers and producers will engage in their annual haggle and come up with a quota level just above estimated demand of 56m bags, and the broad philosophical debate on the future of the coffee agreement will in all likelihood be swept under the carpet.

But the real issues of over-production and consumer and producer resentment are unlikely to go away even if they are put off until next year.

Men and Matters

High cost of high rise

BankAmerica, the second largest U.S. banking group isn't saying how much William Herbert Shorenstein is paying up-front for its classy 52-storey headquarter complex in San Francisco. Word has it that the figure is $300m in much-needed cash.

In any event, Shorenstein, a California real estate tycoon who is already the largest owner of real estate in the city's downtown financial area, will make the record books. In total, the $660m he is paying for the granite-faced high-rise is the biggest price ever paid for a single building complex.

For 69-year-old Shorenstein, who hails from Glen Cove, New York, the acquisition of San Francisco's biggest office complex appears a fitting tribute to an entrepreneur who was demobilised in 1945 with separation pay and little else.

By 1960, he was sole owner of a big real estate firm. Since then he has made his name as the builder of numerous high rise blocks in San Francisco, Los Angeles, Houston and Kansas City.

The BankAmerica deal will add a further 1.8m sq ft of prime office space to his portfolio, which is said to stand at over 2m sq ft, and will no doubt enhance his net worth which is put at around $300m. That should all be good news for son, Douglas, being groomed to take over the business—and for the Democrats.

Shorenstein is a big Democratic fund raiser and was finance chairman for the host committee which staged the 1984 San Francisco convention.

Bold crusader

The spectre of "Thatcher's England" has loomed large in the closing days of Olof Palme's campaign for re-selection in Sweden. "You can almost smell the smoke and burning in the television pictures from Birmingham" he told a crowd of the party faithful in West Sweden at the weekend.

Palme is the best political rabble rouser in Scandinavia even though on occasions his heart does tend to rule his head. His comparison, in the early 1970s, of the U.S. bombing of Hanoi with earlier atrocities such as Guernica and Treblinka introduced a decided cool into Stockholm / Washington relations.

Now he is being rude about conservative policies as practised by the likes of Margaret Thatcher and Ronald Reagan. "These are the politics of egoism, of sharp elbows and meanness in which only the strong can prosper," he says.

Back in November, Palme's Social Democrats looked a hopeless case as a Conservative wind blew through Sweden promising greater personal freedom, local taxes, and cuts in public spending.

But recent statements from more extreme Conservative leaders suggesting Sweden is a land of "junkies" addicted to social welfare and that higher unemployment might be tolerated if the economy was in order have played into his hands.

"We have a big public sector and still have the lowest rate of youth unemployment in Europe. You can't expect Thatcher, Franz Josef Strauss or Bush to know it . . ." he says.

With 75 per cent youth unemployment in parts of Liverpool "the city of the Beatles and youth and the capital of football," Palme has no doubts about the roots of violence in the Brussels football stadium or the riots in Birmingham.

To Palme Sweden's refusal to accept higher unemployment or cuts in the welfare state is a crusade. "It's important to the labour movement in the whole of Europe if we succeed."

Sweden's 6.3m voters were deciding yesterday if they agreed with Palme's apocalyptic view of Sweden as one of the last bastions against the cold callous winds of neo-liberalism.

"Glad you're here — most people just think of us as the home of comics and fruitcakes."

Office politics

The recent Government reshuffle turns out to have been even more confused than it appeared at the time. A story is now going the rounds of Whitehall that two junior ministers have survived despite being on the original list to be dropped.

One was apparently uncontactable during the whole reshuffle week, on holiday on the Continent. In the other case the Prime Minister was due to visit his area, one of high unemployment shortly afterwards and did not want to create a row during the trip by sacking him.

The same sensitivity did not apply the other way round. Everyone at Westminster knew that Dick Tracey was to be the new Sports Minister a couple of days before he himself learnt of his appointment on a trip to the Far East.

One senior parliamentarian has remarked that in his day, if a potential minister had not been waiting by his 'phone, then it would be tough luck and the whips would have looked for someone else. And in the past they would not have worried about sacking someone in his absence.

Top catch

The public relations merrygoround continues to make its own publicity these days. In the wake of the hurried departure of top brass at Good Relations, the British publicly-quoted agency, news comes of shifting relations in neighbouring ranks.

Alan Butler, who is chairman-elect of the Public Relations Consultants Association, is forsaking his seat of 18 years at Carl Byoir, the American multinational, to head up Communications Strategy, the ambitious UK based shop.

Doubtless it is hoped that Butler, aged 44, will make similar impressions on the globally aspiring CS as he did during his 10-year reign as managing director of Byoir. In his time, the UK agency matured from 10 people and fee income of £120,000 to 70 people and fee income of more than £2m.

After years in the 'subsidiary' seat, working for overseas masters, Butler is keen to manage a parent company. His role at CS, which is eight-years-old, will be to help grow the international network with the focus on Europe, North America and the Asia Pacific.

But he still hopes to have time to swop desks for playing fields. For Butler, who is no mean competitor on soccer, tennis and lately cricket arena, life has come full circle. His new job takes him within a boundary stroke of his old stamping ground, University College, London.

Clean living

I am reassured by a Baghdad hotel brochure: "All of our foods are of top kind and cleanly cooked and one hundred per cent pure. There is no adultery in the kitmabs."

Observer

Foreign Affairs

South Africa: the many economic contradictions of apartheid

By Ian Davidson

President Botha: his plan backfired

PRESIDENT Botha's announcement last week, that he intended to negotiate with the leaders of the four "independent" homelands—Bophuthatswana, Transkei, Ciskei and Venda—so as to restore South African citizenship to their inhabitants, is testimony to his remarkable agility in the politics of gesture and ambiguity.

On the one hand, it may look like a concession to his critics at home and abroad, an acknowledgement, if you like, that the Bantustan policy isn't working and in any case cannot solve any of South Africa's real problems. On the other hand, since the Bantustan policy is little more than political theatre, this latest "concession" may be interpreted as no more than a marginal rewrite of the fictional script.

This is not the first time that President Botha has shown an inclination for Janus-like initiatives, which appear to face both ways at once, with the design of appeasing his opponents without alarming his present supporters. A case in point was the 1983-84 constitutional "reform," which admitted Indians and Coloureds to separate chambers in a new tri-cameral parliament.

This innovation badly split President Botha's white liberal critics. Some argued that this was a very poor first step down the road of real political reform, since it continued to exclude the blacks from any representation in the central political institutions, but at least it was a first step; others claimed that it was merely a cynical manoeuvre, whose liberal appearances did nothing to cloak the real purpose of co-opting the Indians and Coloureds as allies of the whites against blacks, without surrendering a scintilla of white power.

Whatever President Botha's real intentions at the time or since, the plan backfired. It was opposed by a large proportion of the Afrikaner electorate, and shunned by most of the Indian and Coloured voters; and the 1984 election played a fateful role in precipitating the black disturbances which led to hundreds of deaths and the declaration of the state of emergency.

Foreign bankers who have seen their short-term credits frozen, and those foreign governments which have taken the first tentative steps down the road of economic sanctions, will now be searching anxiously for clues as to the significance of President Botha's latest initiative. Is this just another placebo to give the illusion of reform without the reality? Or is it the advance indication, to supporters and critics alike, that real reforms are coming next? (And if so, can he carry it off more successfully than his constitutional reform of 1983-84?)

They could do a lot worse than take a look at a new book about the South African *quandary by Merle Lipton,* called *Capitalism and Apartheid.* It does not, of course, give a precise answer to the question, because it was (on internal evidence) substantially completed well before the declaration of the state of emergency, let alone the latest financial crisis.

On the other hand, it is based on well over a decade of research into the politico-economic aspects of apartheid, and its analysis sheds some very suggestive light on why it failed to live up to the unalloyed purity of the Afrikaners' original aspirations; why and how the economic *elements of the system* have had to be progressively adapted to non-racial imperatives; and what, by 1984, were still the factors still holding it together.

Everybody is by now familiar with the idea that, within the white clan, it is the South African business community which has increasingly contested the economic aspects of apartheid, and more recently the political.

Afrikaner critics have often argued *that the "liberalism" of* a business community once dominated by the English was *largely hypocrisy: they talked* liberalism, but profited from apartheid—and voted for the *National Party.*

Mrs Lipton argues convincingly that, if the English business community was hypocritical, it was no more hypocritical than any other interest group in South Africa. At various times *they have all favoured* racial discrimination against the blacks, because *it* suited their economic class interests. As these class interests changed, with the evolution of the economy, so have attitudes towards the apartheid system *as it affected them.*

White farmers were long the strongest advocates of apartheid, because it helped to drive black farmers out of business and ensured a supply of cheap black labour. But when the government tried to solve the problem of surplus black urban population through the Bantustan policy, white farmers became much less enthusiastic, because they feared that mass black removals would have a disruptive impact on their own businesses.

Similarly, white trade unions have been and remain strong *supporters of* apartheid in principle, because it has guaranteed them better jobs and higher incomes than blacks. But they were much less enthusiastic when the government tried to *handle* the problem of the growing black population near white urban areas, by promoting new industrial development in or near the Bantustans, because they feared that this trend, if successful, would undercut and ultimately threaten the viability of their own jobs.

Conversely, economic apartheid was not advantageous for industry and commerce, whose expansion required rapid increases in the numbers of workers who were skilled and, above all, permanent and not migratory. For industrialists the apparatus of bureaucratic red tape and repression could only be a nightmare.

The *Afrikaners* have long been more racist than the English, but their commitment to the full rigor of apartheid has been eroded partly by the development of the economy, and partly by their success in invading the English bastions of industry and commerce. As their economic interests have come to *coincide more closely* with those of the older-established English business community, so their anaylysis of the shortcomings of apartheid has become, gradually and no doubt reluctantly, similar to that of the English business community.

Moreover, Mrs Lipton cites evidence of a clear link between class and liberalism. As Afrikaners have narrowed the income gap with the English, so their attitudes on race issues have become relatively more *liberal;* and the *higher up the* class scale they are, the more likely they are to be relatively liberal. This may be because they are better educated and more enlightened; or because the blacks they come across are more educated; or because their privileges are so great as to insulate them from *any fear that they might suffer* from *economic* liberalisation. Political liberalisaton is a different kettle of fish.

The most obvious exception to this liberalising trend in attitudes is the bureaucracy, and Mrs Lipton cites instances where the buraucrats actively resisted the implementation of government measures *designed* to ease the constraints of apartheid. She suggests two explanations. First, a much higher proportion of Afrikaners than English is employed by the state: 36 per cent, compared with 14 per cent. Second, a large part of the function of the bloated bureaucracy is to administer apartheid, and any liberalisation of the system undermines the raison d'etre for the jobs of many bureaucrats.

The first conclusion of this analysis is that the last bastions of resistance against liberalisation are exactly where one would expect to find them: the bottom half of the white working class, and the bureaucracy.

So, has the system worked for South Africa? Has apartheid been the ally of capitalism? Mrs Lipton, part of whose academic purpose is to confound the *idées fixes* of certain Marxist analysts, argues that the very question is too crude. "Apartheid was functional for certain kinds of growth, notably the labour-intensive, export-oriented growth characteristic of the primary sectors until the late 1960s. It was not functional for growth in skill-intensive sectors and/or in those needing a large domestic market, such as manufacturing and, from the late 1960s, agriculture and non-gold mining."

Moreover, as Mrs Lipton makes plain, the white tribe has rarely thought through the implications of its policy on racial discrimination, or been prepared to pay for the consequences of that policy when it conflicted with other, more immediate class or economic interests. Many if not most of the whites have long been in favour apartheid — provided they could shift the costs on to some other group.

"There is no clearer indication of the contradictions of apartheid than the fact that many of the problems which apartheid caused or aggravated (protection in manufacturing; high black unemployment; the expensive decentralisation programme; the growing costs of *defence and of strategic* import-replacement) led in turn to the need for a fast growth rate. But fast growth was hampered by the skill and capital bottlenecks, and the obstacles to international trade, which apartheid itself caused."

It is easy to see the need for urgent and fundamental reform. But there is no room for smugness: the obstacles to reform are analogous to those in other countries. Every Soviet leader since Stalin has called for economic reform, so who prevented it? The bureaucracy and the vested interests. Last week in the FT, a contributor, Michael Nevin of the European Investment Bank, argued that the admission of Spain and Portugal to the European Community should mean a switch of expenditure from farming to regional development. Maybe it should; but who will willingly pay for it? The farmers? Ridiculous!

Capitalism and Apartheid: South Africa 1910-84; Merle Lipton; Gower Publishing, £18.50.

Lombard

Time to relegate Mo target

By Samuel Brittan

IT IS NOT often that I sympathise with the hobby horses of City commentators or the Bank of England, let alone with both together. Yet there are always exceptions; and their refusal to take seriously the Treasury's target for M0—ie notes and coins plus banks' operational deposits with the Bank of England—seems to me justified.

When M0 was first suggested as a principal monetary target in the 1983 Mansion House Speech, I noted its absurdity, but hoped it would die a natural death. Alas it lives on in a sort of half life, because the Treasury has put a lot of intellectual capital into it; and the Chancellor can never be reminded too frequently what an impoverished concept it is.

He may find it attractive because it is growing at the bottom of its target range of 3 to 7 per cent. Thus it is just the type of measure most likely to let him down before many moons have passed. He is quite right to argue that the traditional indicator, Sterling M3—cash plus bank deposits—which is way above target, has become hopelessly misleading. But he would be better to do so directly on the basis of the general state of the economy without the crutch of bogus science.

Notes and coins are the small *change of the banking system.* They amounted on the last count to nearly £14bn. Bankers' operational deposits were insignificant at around £200m. These figures compare with total deposits of over £100bn, even without including building societies.

For reasons which we can only guess, people are holding relatively less notes and coins then before. This is hardly a reason for slashing interest rates, any more than an unexpected desire for cash in the future—say due to the popularity of cash dispensers—would be a reason for a monetary squeeze.

The Treasury's case for M0 is entirely "black box." That is, it has been chosen simply because of a supposed statistical relationship between it and national income in the past, without a proper theory or explanation of the connection.

Black box regularities are sometimes better than nothing, eg observed regularities about *the rising and setting of the* sun before we had a scientific explanation. But the equations behind the Treasury's monetary targets are based on a pitiful few years out of the millennia of human history and cannot be accepted without reasoning to back them.

Treasury econometricians could change their mind at any time and leave the politicians to pick up the baby.

I doubt if M0 would ever have attained target status if it had been simply called "Notes and coins, etc." It is the inclusion of bankers' balances which gives the aggregate a superficial attraction for technical monetarists. This might make some sense in countries such as the U.S. where banks maintain much larger balances with the Fed, and the regulation of these balances is a mechanism of monetary policy.

But to base British policy on the tiny bankers' balances with the Bank of England, which have no such role, is self-deception, which does not bring genuine monetary base control *any nearer.*

The issue matters because, with the collapse of Sterling M3, the way has seemed open for a commonsense approach in which all monetary aggregates are examined, together with exchange rates, asset prices and conventional forecasts, but none is given a target status.

Obviously one has to explain how a wide range of information should be taken into account. We do not want to go back to old style demand management based on wishful thinking. The "nominal framework" which we need could take three forms: (a) an inflation objective (b) an objective for total spending or national income ("Nominal GDP") or (c) a published or unpublished exchange rate aim as an intermediate objective along the road to (a) or (b).

Before we can have a sensible *consideration of these issues,* we need to abandon the search for a magic monetary lodestar. The Treasury can continue to monitor M0, which like all other indicators, will occasionally provide useful clues. It is its privileged status which needs to lapse.

Letters to the Editor

Pricing petrol products

From Mr P. Gibb

Sir,—Since August 20 the price of gas oil and derv has risen by a staggering 3p per litre. This represents an increase of nearly 20 per cent on the non-duty element. The exchange rate movements and the product spot prices can only account for 1.5p per litre. It was long ago that I and my oil suppliers stopped talking about justification. The discussions were futile given the ludicrous nature of the schedule-less-rebate price mechanism.

A cynic might suggest (with justification) that the mechanism is now used in a calculated manner by oil price leaders to obtain public sector tender business at laughably low prices. The oil supplying companies have to tender at least four weeks before supply commences and it is truly amazing how the price is always increased by large amounts often prior to any deliveries taking place.

The public sector buyer has to justify his sourcing decisions not only to his management but also to the *feared and* eagle-eyed auditor. The price leaders know and abuse this.

The present pricing mechanism is a disingenuous sham which I look forward to replacing. I hope my fellow buyers think likewise and demand a more appropriate system.

P. Gibb,
64, High Street,
Blunsdon,
Nr Swindon, Wilts.

Life has to be sold

From Mr K. Williams,

Sir,—I really must take Mrs Veasey (September 11) to task.

The implication of her comments about insurance salesmen is that they are all out to somehow force people into buying something they neither want *nor need;* and that if left to their own devices these people would ultimately purchase something more appropriate from someone more appropriate (Mrs Veasey's company?).

The reality surely is that most salesmen perform a useful function, for very few people decide spontaneously to purchase life assurance and most fail to realise the benefit until an approach by a salesman makes them consider the product.

I write as a representative in my spare time for a friendly society with some ten years experience of convincing my friends and colleagues of the need for and the benefits of life assurance. Mrs Veasey presumably would insist that in future I should do this only if I first study for and pass a rigorous professional examination; thereby effectively banning me from *performing* what I consider to be a useful function, promoting a non-profit-making society which consistently has been shown by independent financial analysts to be offering a better product than many marketed by professional advisers.

Indeed, the position of the several hundred friendly societies in this country seems threatened if the approach *suggested* by Mrs Veasey is that ultimately adopted.

K. D. Williams,
35, Altcar Road, Formby,
Merseyside.

Human sub-editors

From Mr E. McMillan-Scott, MEP

Sir,—In his story on Esperanto (Men and Matters, September 6) Observer suggests that translation costs £10 per word in the European Parliament. Such information discredits his informant.

Translation is expensive in a Community with seven (soon to be nine) official languages and currently runs, I am told, at about £6 per page. Savings will be made when computerised translation, enhanced by human sub-editors, is available for run-of-the-mill documents.

Programmes being developed by the European Community based *on U.S. defence* software already translate French, German and English documents into each other. The results are imperfect but intelligible, like some of the original Community documents.

Edward McMillan-Scott,
77 Long Street,
Easingwold, York

Tory deputy chairmen

From Mr H. Spicer, MP.

Sir,—Mr Eric Chalker's contention (September 10) that it is unconstitutional for the Conservative Party to have a deputy chairman is simply untrue.

I held this position for a year from 1983-84 and my predecessors were Lord Fraser of Kilmorack, James *Prior,* MP, William Clark, MP, Lord Maude, Baroness Young, and Lord McAlpine of West Green.

Michael Spicer,
House of Commons, SW1.

Elected leaders

From Mr E. Chalker

Sir,—You kindly printed a letter of mine last Tuesday, under the heading, "Deputy chairman at a whim?" This letter unfortunately contained the statement that the position of "deputy chairman" had not previously been recognised in the Conservative Party but this statement was, of course, in error.

While the position of "deputy chairman" is not new, the role assigned to Jeffrey Archer does appear to be different from that given to his predecessors. The most important point, however, remains the fact that the timing, the person and the nature of each such appointment are subject to no democratic process whatever. They depend for their apparent legitimacy on the continuing fiction that the whole Conservative central office apparatus is the personal property of the Parliamentary leader of the Party.

Nothing could be further from the newly-democratic *world of the trades unions,* forced upon them by our own Conservative Government.

Eric Chalker,
(Editor, Charter News),
21, Ingleside Close,
Beckenham, Kent.

Computer-aided design

From the Managing Director, Towers Noble

Sir,—I would endorse every point Michael Peters made in his letter (September 10) responding to your article "More power to the designer's elbow," except the last and crucial one.

He theorises that the computer, by reducing the time needed for presentation of *design ideas, expands the time* available for thinking the ideas up. A kind of designer Parkinson's law.

In practice, because it provides you with so many facilities instantly, it cuts down the thinking time. So you create better ideas, quicker.

S. G. Noble.
11 High Street,
Stevenage, Herts.

Simply normal Calais fare

From Mr J. Huizinga.

Sir,—How one has to shop about these days, not only for airline tickets but also for some rail-tickets, as I discovered when I went to French Railways in Piccadilly to book my medium-sized car and OAP-self on the Calais-Nice car-train. Thanks to a helpful official I learned that I could save myself more than a hundred pounds by simply telephoning Calais, for my reservations.

Provided I had a Europe Rail Card and did not have to travel on a Friday or Sunday nor on one of the rare autumn, winter and spring days known as "peak" or "standard," the tickets including a T2 sleeper would cost me *£107.69* in all. Bought in London they would have set me back £218, the only advantage being that they would allow one, whether an OAP or a babe in arms, to travel on any day.

Even those not yet entitled to the OAP's half fare but able to travel on an "off peak" date can still save some £80. But only by booking at Calais which also, according to a French Railway pamphlet, only charges a "forfait minime" if you cancel your sleeper while at Piccadilly they only refund some 30 per cent.

J. H. Huizinga,
43 Wilton Crescent, SW1.

Chinese debts

From the Chairman, Bond and Share Society.

Sir,—I read with interest and surprise your report (September 10) on the Chinese dollar Floating rate certificate of deposit issue. *For the* benefit of readers it may be helpful to remind them, particularly if they are considering making further loans to China, of the nature of the last major default of this century. *Sterling* denominated bonds issued in London, New York and other European financial centres amounting in total to about £60m fell into default in 1938 on the outbreak of war between China and Japan. Subsequent local uprisings culminated in Mao Tse Tung's rise to power ten years later, leading *to the "official" repudiation* of all foreign debt. At that time, in addition to the principal, there was and still is a further £60m of unpaid interest.

Despite repeated requests for settlement by investors through the Council of Foreign Bondholders and diplomatic channels, no funds have been forthcoming. *As yet* China has not attempted to issue a new sterling bond. Many experts believe that without settlement of its default, such an action would be fraught with legal problems; nevertheless, China has steadily built up a framework of money raising activities which have ducked the legal issues of cross default clauses.

The international banking community is clearly determined to lend to China, totally ignoring its past credit record.

Jonathan A. Lyttleton,
2, Elm Walk,
West Heath Road, N.W.3.

FINANCIAL TIMES

Monday September 16 1985

Terry Byland on Wall Street

Hesitation ahead of more data

JUST for a time last week it looked as though Wall Street's equity markets were really on the run. The Dow Jones industrial 1,312 mark, an important support level, was brushed aside and the increase in selling lifted share trading totals to daily figures not seen for more than a month.

But not all the professionals have turned bearish. The success of the market in rallying as Dow 1,300 came into view lent support to the opinion that the recent trading range of 1,312 to 1,335 remains intact. Indeed, a downward swoop to the lower end of the range was almost inevitable in a market which had been losing momentum for a month.

The balance of brokerage opinion remains bullish, if cautiously so after last week's shakeout. Most believe that the U.S. economy is rebounding, even if the fruits may not fully appear until early next year.

There is a good deal of hedging of bets between the equity and the bond markets. Merrill Lynch, which has constantly urged that setbacks in the stock market should be seen as buying opportunities, also urges that stock selection is "critical" in the current environment. Despite its optimism towards equities, Merrill recommends that portfolios be evenly split between stocks and bonds.

E. F. Hutton, coming down slightly harder on the side of caution, continues to recommend portfolios of 10 per cent cash, 40 per cent bonds and 50 per cent equities. And, at the most bullish end of the range, Bernstein Research rates the chances of a business boom at "more than 90 per cent."

A major reason for the stock market's uncertainty has been the sheer unpredictability of the bond market. The past two Friday's have seen the bond market respectively collapsing and soaring in response to federal economic data. The lack of retail interest underlines the split of views in the bond market over the direction of interest rates.

For both bond and equity sectors, many of these doubts will be pushed into focus this Friday when the Commerce Department announces its "flash" estimate of third-quarter gross national product (GNP) growth.

Wall Street wants to see signs that the economy is moving up strongly, reflected in GNP growth of 3 to 4 per cent for the quarter. Oppenheimer, taking the more bearish view, holds its forecast at around 3 per cent, warning that the high levels of consumer debt which have fed retail sales so far, must soon begin to falter.

For the moment, however, few brokers are prepared to translate their latest bullishness into a significant shift in stock recommendations. The stress still lies on the beneficiaries of disinflation – the consumer and interest-rated sectors. Some highly selected, cyclical industries, such as chemicals, also continue to attract favour, but in other sectors, only takeover situations, of which there have been plenty, stir the hearts of the analysts.

Sectors out of favour range from the obvious losers like domestic oil stocks, which no longer have rampant takeover speculation to offset the negative aspect of sliding world crude prices, to some less obvious targets.

The Detroit car makers, together with the auto parts, the auto after market and the component sector, is shunned on all sides. Significantly, stocks in the three major U.S. manufacturers have made almost no response to the huge gains in sales in late August and early September, which followed the generous customer financing deals by the big three. Wall Street refuses to believe that "bought sales" can mean genuine profits.

In the case of the Detroit stocks, the share prices have been lagging behind the market for some time. But the analysts are now turning their backs on other sectors, leaving their stock prices vulnerable.

Newspaper and magazine publishers, which already are feeling the draught of reduced advertising sales, and have accordingly been marked down by Wall Street, trade on generous-looking price/earnings ratios. Knight-Ridder, is on a p/e of 15, although advertising revenue has already slipped.

Gannett, on a p/e of 19, is leaning heavily on the prospects of USA Today, its national, satellite-printed newspaper. An undoubted publishing success with a circulation comfortably above 1m a day. USA Today has also successfully attracted the advertisers. But lower industry advertising revenues could seriously delay the venture's move into profitability.

Outside the sectors of perceived vulnerability, the advice from Wall Street is to hold tight, and wait for the federal data hopefully to vindicate the underlying bullishness of the brokerage houses.

IADB REPORT IDENTIFIES PROBLEM AREAS IN LATIN AMERICAN CRISIS

Investment drop a major worry

BY PETER MONTAGNON, EUROMARKETS CORRESPONDENT, IN LONDON

IT IS an illusion to think that the much vaunted trade surplus notched up by Latin America last year marked a turning point in the region's financial and economic recovery. After three years of wrestling with crisis, the process of real economic adjustment has barely begun and palliative measures taken so far may, in effect, have wrought more harm than good.

This, in essence, is the argument presented by the 1985 report on economic and social progress in Latin America published today by the Inter-American Development Bank (IADB). The report contains a rare and detailed attempt to analyse the impact on the seven largest Latin American countries of programmes undertaken so far to help them service their debts and return to international creditworthiness.

Despite last year's export-led recovery, which saw growth in the region resume at 3.1 per cent and a marginal recovery of living standards after a 10 per cent fall in the preceding two years, the report holds out little comfort either in terms of real achievement or future prospects. Ultimately, it suggests Latin America may simply prove unable to live with its $350bn foreign debt.

A major problem it identifies is the fall in investment as resources are diverted to meet debt interest payments that quadrupled to $38bn between 1978 and 1984.

"The depressed levels of investment recorded in most countries in the 1983-84 period appear incompatible with the achievement of sustained real rates of economic growth over the medium term sufficient to service external debt obligations," it says.

By 1984 investment spending in the countries surveyed had fallen to just 18 per cent of gross domestic product compared with about 25 per cent in 1980-81 just before the crisis broke. Structural changes to promote domestic savings are essential if investment is to revive, the report argues.

But rescue schemes adopted so far have paradoxically had precisely the opposite effect, the report says. By stressing the need for large trade surpluses they have resulted in rapid devaluations which contributed to an acceleration of inflation and rising unemployment. These problems, in turn, have discouraged investment and stimulated consumption instead of savings.

Particularly badly hit has been private sector industry. Instead of being the locomotive of recovery it has found itself crowded out of domestic financial markets as governments struggled to fund their fiscal deficits.

This further accentuated the recession to which severe import restrictions were already contributing. "The attempt to service large debts in the present prejudices continuing ability to pay in the future. Exports to be made tomorrow require capacity increases today. But countries that are being forced prematurely to transfer such large proportions of their saving cannot afford to invest," it says.

The report offers little encouragement even when it seeks to look into the future. Taking a baseline assumption that interest rates stabilise around their present levels and the real value of the debt does not grow, it predicts net payments outflows from the region will continue for the rest of the decade.

Growth would then be held below 4 per cent a year so that the real standards of living prevailing in 1980 might not be regained until the end of the decade. "Continued high interest payments on the external debt and the consequent prospect of having to generate positive trade balances for the rest of the decade, raise a fundamental question about the feasibility of such a scenario."

A higher growth rate could be achieved by permitting a real increase in external debt. This would generate positive financial transfers, but it could also sow the seed of renewed debt crisis in the future.

A 5 per cent real increase in external debt would produce inflows of $137bn over the next six years and economic growth of almost 5 per cent a year. But by the end of 1990, debts would total a massive 375 per cent of exports compared with 237 per cent at the start of the decade.

Indeed, the only hopeful scenario presented by the report is the least likely one in which exports again grow rapidly in real terms. That would reduce the real debt burden and produce higher growth. Not even on this best assumption, however, would employment generation be enough to absorb new entrants

Pretoria may change position on contact with ANC leaders

BY ANTHONY ROBINSON, IN JOHANNESBURG

THE PRETORIA Government's public display of pique at the decision of South African businessmen to go ahead with their planned talks with leaders of the banned African National Congress (ANC) in Zambia last week may not accurately reveal its real thinking about the need for contacts with the organisation.

This emerged over the weekend when sources close to the ANC delegation told the Mozambique news agency (Aim) that the businessmen had told ANC leaders that the Government accepted the need for contacts but was unsure how to proceed.

In an interview with Beeld, an Afrikaans daily newspaper, at the weekend, President P. W. Botha criticised the business leaders for "showing signs of weakness to the enemies of South Africa."

The President characterised the ANC as being controlled by Communists and being dedicated to the violent overthrow of the existing order and its replacement by a Socialist dictatorship.

He forcibly re-stated official policy that "the Government itself will not talk to any organisation or person which advocates violence."

According to Aim, however, the South African delegation told forced to take this line in public because of the advance publicity in the South African press.

Mr Gavin Relly, chairman of Anglo American Corporation and leader of the seven-man delegation, also hinted at such an interpretation.

Asked to comment before his departure on President Botha's condemnation of the proposed meeting as "unwise and even disloyal," Mr Relly said that the President "may have found the statement necessary in a political sense."

Further evidence that formal refusal to enter into contacts with the ANC until it renounces violence does not signify lack of interest in contacts has come from Swaziland.

According to the South African Press Agency, Mr Pik Botha, Foreign Minister, during talks in the Swazi capital, Mbabane, asked Swazi leaders to use their influence in pursuading both the ANC and the Pan African Congress (PAC) leaders to renounce terrorism and come together with the South African Government for round-table talks, with Swaziland as a possible venue.

Mr Oliver Tambo, ANC leader, is understood to be preparing to visit Swaziland to seek improved relations between the two. Swaziland was embarrassed earlier this year by the presence of ANC guerrillas in violation of Swaziland's security pact with South Africa.

In common with other countries in southern Africa, Swaziland is deeply concerned at the negative knock-on effects of economic sanctions and the withdrawal of bank credits and investment from South Africa.

This is believed to be one of the subjects under review at the weekend's meeting of so-called "frontline" states in Maputo, which took place against the background of a pre-rainy season offensive by government troops against Unita rebels led by Dr Jonas Savimbi in Angola and combined Zimbabwe and Mozambican Government army operations against Mozambican National Resistance (MNR) rebels

Economic contradictions of apartheid, Page 17

Thatcher considers response to Soviets

By Robert Mauthner, Diplomatic Correspondent, in London

THE UK Government is expected to decide on its response to the Soviet Union's "tit-for-tat" expulsion on Saturday of 25 British diplomats, journalists and businessmen before the departure of Prime Minister Margaret Thatcher on her Middle East tour today.

However, the exact nature of that response, on which Sir Geoffrey Howe, the Foreign Secretary, was yesterday holding urgent consultations with Mrs Thatcher and top Foreign Office officials, may not be made public immediately.

Mrs Thatcher and Sir Geoffrey were clearly anxious to explore all the implications of further retaliatory measures as Anglo-Soviet relations reached their lowest ebb since *1971, when Britain expelled 105* Soviet citizens.

The Government expected Moscow to eject a number of British diplomats following the expulsion by Britain last Thursday of 25 Soviet officials and journalists, in the wake of the defection of Mr Oleg Gordievsky, the former KGB chief in London. However, the scale of Moscow's reaction came as a surprise.

The Foreign Office had warned in advance of the Soviet action that Britain would take "an extremely serious view" of any retaliatory expulsions. But Sir Geoffrey's initial reaction to the Soviet announcement, though toughly worded, gave no hint of how the Government intended to translate its verbal condemnation into practical measures.

The Government's only move so far is to have cancelled a visit to Moscow of Mr George Younger, the Scottish Secretary. But the visit of the trade mission, which he was to have led, is going ahead.

Recent Anglo-Soviet incidents of the same kind cannot be taken as a pointer to the latest round of retaliatory expulsions, which is on a *much bigger scale. The most recent* example was in April this year, when Britain expelled five Soviet officials, but announced the expulsion of only two in the first instance.

This was followed by the Soviet Union's ejection of three British diplomats from Moscow, to which London retaliated by announcing the other three expulsions.

Whatever happens, however, it will take many months to restore Anglo-Soviet relations even to their previous chilly level.

On a wider level it is the East-West atmosphere in which the U.S.-Soviet nuclear arms control negotiations – due to resume in Geneva later this week – are taking place which has suffered. The British Foreign Secretary has always been one of the main exponents of the thesis that arms control negotiations can hope to be successful only if the general political environment in which they are held is reasonably good.

Mr Douglas Hurd, the Home Secretary, was yesterday asked in a letter from Mr Tam Dalyell, a Labour Party member of parliament, to explain the reasons for the expulsions of the 25 Russians last week, particularly the journalists.

Mr Dalyell said he did not understand what the Government hoped to gain from the expulsions and that it was "naive and incompetent" for the Foreign Office to suggest that relations with the Soviet Union could still improve after the expulsions.

Hanson suffers new blow in SCM battle

Continued from Page 1

son's U.S. operations, gave no clear indication of what the UK company's intentions were towards the New York group, but he told the court that he was "surprised" at the amount of SCM shares that Hanson had been able to acquire.

Imposing the preliminary injunction on Hanson, Judge Shirley Kram agreed, however, that Hanson's share-buying had the appearance of a tender offer in violation of the securities laws, and that without court action to stop further purchases, SCM shareholders would be "irreparably harmed."

Analysts have speculated that Hanson's share-buying may have been designed to put pressure on SCM to part with assets which the UK company wants, or to provide a springboard to a new offer if the management buyout falls through.

But there is also considerable puzzlement on Wall Street over Hanson's tactics, since Merrill Lynch has been given the *option to* buy two of the most profitable divisions in SCM, its titanium dioxide and consumer food offshoots. These options can be exercised at any time and under any circumstances, making the U.S. company much less attractive to hostile bidders.

Producers to seek supply cut in coffee

BY ANDREW GOWERS IN LONDON

THE WORLD'S producers and consumers of coffee open their annual bargaining session over restrictions on coffee sales in London today, with leading producers apparently determined to force a reduction in supplies in order to bolster what they regard as present depressed prices.

The negotiations are taking place under the auspices of the International Coffee Organisation, which regulates the $10bn world market through a strict system of export quotas. The organisation's members account for almost all the world's coffee exports and most imports, and negotiations between them are always highly contentious.

Brazil, the leading producer with almost 30 per cent of total world exports, is likely to press for a cut in export quotas in order to bring supplies more closely in line with stagant world consumption. It argues that the quota in the present coffee year, which *runs from* October to September, was originally fixed too high – at 61m bags, compared with estimated demand of around 56m.

This abundance of supplies, say Brazilian officials, has caused coffee prices to fall below 120 U.S. cents a pound, the bottom end of the ICO's official range. Sr Roberto Gusmao, the Brazilian Industry Minister who is in London for the talks, is likely to argue that in order to bolster prices, the quota should be fixed below 57.5m bags, the estimated actual level of shipments to ICO consuming members this year.

Consumers, however, are equally resolved to keep prices down, following a lengthy period in which they say they were penalised by relatively high prices, by seasonal shortfalls of coffee, and – in Europe – by the strength of the dollar, in which coffee is traded.

West Germany is already on record as calling for a 60m bag quota this year. However, European Community officials, meeting in Brussels last week, are thought to have decided not to discuss a precise figure until they have obtained assurances from producers that supplies will be more aligned with demand in each quarter of the coffee year.

Their complaint is that coffee is traditionally short during the autumn and winter, when demand is buoyant, and plentiful in the second half of the coffee year, when consumption is on the wane.

Brazil disputes these arguments.

The strains begin to tell, Page 16

World Weather

		°C	°F
Ajaccio	S	25	77
Akrotiri	S	27	81
Algiers	S	29	84
Amsterdam	F	15	59
Athens	S	24	75
Bahrain	S	38	100
Bangkok	R	31	88
Barcelona	F	25	77
Beirut	C	29	84
Belgrade	S	27	79
Berlin	R	16	61
Biarritz	C	20	68
Blackpool	S	14	57
Bordeaux	R	16	61
Brussels	F	16	61
Budapest	S	21	70
B. Aires	R	13	55
Cairo	S	28	82
Cape Town	S	19	66
Caracas	S	27	81
Casablanca	C	25	77
Copenhagen	F	13	55
Corfu	F	23	73
Dublin	C	14	57
Dubrovnik	S	24	75
Faro	S	31	88
Florence	S	26	79
Frankfurt	C	13	55
Funchal	C	22	72
Geneva	C	18	64
Gibraltar	S	25	77
Guernsey	S	15	59
Helsinki	R	13	55
H. Kong	F	30	86
Innsbruck	S	22	72
Inverness	F	13	55
Istanbul	S	22	72
Jersey	F	15	59
Jo'burg	F	18	64
Las Palmas	–	–	–
Lima	F	18	65
Lisbon	S	32	90
Locarno	C	20	68
London	F	17	63
Los Angeles	F	18	64
Luxembourg	R	11	52
Madrid	S	31	88
Majorca	F	27	81
Malaga	S	26	79
Malta	S	27	81
Manila	C	33	91
Miami	C	26	79
Milan	S	24	75
Moscow	R	14	57
Munich	C	17	63
Nairobi	F	28	82
Naples	S	27	81
New Delhi	S	30	86
New York	–	–	–
Nice	S	25	77
Oporto	S	24	75
Oslo	F	14	57
Paris	C	14	57
Prague	F	18	64
Reykjavik	C	7	45
Rio de J'o	S	33	91
Rome	S	27	81
Salzburg	C	20	68
Seoul	R	17	63
Singapore	F	29	84
Stockholm	R	11	52
Strasbourg	R	16	61
Sydney	F	15	59
Taipei	S	34	93
Tangier	C	32	90
Tehran	–	–	–
Tel Aviv	F	26	79
Tenerife	–	–	–
Tokyo	R	20	68
Toronto	S	8	46
Tunis	F	27	81
Valencia	S	29	84
Venice	S	23	73
Vienna	S	21	70
Warsaw	F	19	66
Zurich	C	14	57

Readings at mid-day yesterday:

C–Cloudy D–Drizzle F–Fair Fg–Fog R–Rain S–Sun Sl–Sleet Sn–Snow T–Thunder

Kikkoman row

Continued from Page 1

disclosed two things of intense embarrassment to Mann's Wines.

The first was that in order to avoid having to recall wine already in the shops, Mann's changed the contents of a storage tank at one of its plants, substituting domestically produced and untainted wine for what it had imported from Austria.

The second, equally damaging, was the coincidental revelation that the high-cost Mann's Estate wine brands, advertised as the cream of domestic production and retailing at between Y10,000 and Y430,000 ($40 to $120) a bottle, were made mostly from extremely inexpensive imported bulk wine.

THE LEX COLUMN

Preaching to the unconverted

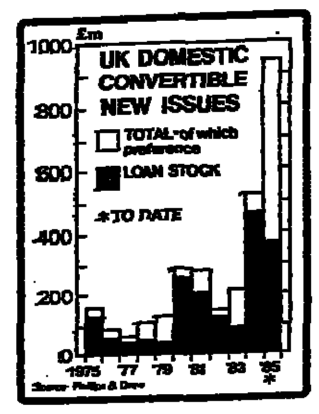
One of the more curious features of this year's curious equity market has been the volume of capital raised through issues of convertibles. With £930m pulled in so far by way of convertible loan stock or preference shares this year's total from new issues could be double that of last year – while a single large issue (from Hanson Trust) exceeds the entire total raised from convertibles in 1975. Yet whether this is a revival in convertibles, as a seminar staged last week by Phillips & Drew would have it, or just a byway in a market overgrown with equity fund-raising and takeover activity is not entirely clear.

In a year of rising real interest rates and a low elative yield on the All-Share – and not simply on property shares – it makes eminent sense to sell deferred equity on an average yield of 7 per cent.

Equally, falling rates of corporate taxation remove one of the attractions of bank borrowing: that it is serviced out of before-tax earnings. This may explain also the radical shift in favour from loan stock to prefs, of which £550m worth have so far this year been issued; or perhaps it is merely their cosmetic value in flattering balance-sheet ratios and pre-tax profits.

For acquisitive companies on low yields the convertible has proved a useful bait in tempting those holders in the target company there for income reasons – although the convertible of a high-growth company naturally devalues more quickly as a fast-rising dividend overtakes the income advantage on the convertible. At the other end of the scale a convertible will usually fall less sharply than the underlying equity, supported by its fixed-interest characteristics even as the chances of conversion recede.

None the less, professional investors remain sceptical about the marketability of convertibles: the British Home Stores convertible, issued in 1980 in the form of rights, is now held by exactly a quarter as many as the ordinary shareholders. There is a new question-mark in the Takeover Code over the obligations of a bidder to respect the income advantage for holders of convertibles in the company taken over; and private investors, who lack access to the computer switching models of the convertibles boffins, are as baffled as ever. It may be that a high-yielding instrument gains in attraction with each passing year of a bull market; but it would not be wise to trumpet wider convertibles ownership simply because of a rash of sub-underwriting sticks.



Home Loans

Spotting temporary anomalies in the market place is easy enough, since even in the most efficient market there are always plenty of them about. Finding gaps that are wide enough (and will be there long enough) to base a business on: that is another thing.

The idea behind today's flotation of the UK National Home Loans Corporation is that two such market gaps can be put together, namely the existence of financial institutions with larger books of mortgages than they want to maintain, and the availability of wholesale funds at well below the return on retail mortage loans. For Home Loans to become a successful long-term business these features have to be a fairly permanent part of the landscape.

Setting up one such company is probably to going to come near exhausting either of the anomalies on which it is based. On an equity base of £100m, Home Loans would currently be permitted by its articles to run a mortgage book of roughly £1bn, about 1 per cent of the existing stock of UK mortgages; if the banks and insurance companies have been taking on mortgages mainly as a way of selling other services, they may now be glad enough to find an upstream lender who will take the assets and leave the customer-relationships behind. The fact that some banks are already beginning to lay off part of their mortgage books in this way proves there is something in it.

As to the funding of an enterprise like Home Loans, the building societies – even with their massive share of the retail savings stock – have been treading a path into wholesale interbank deposits. However tight the money markets, it should be some considerable time before massed ranks of mortgage lenders succeed in bidding up the price of three-month interbank money to a point where it is as costly as liquid lead (or other more sophisticated retail deposit products).

The time has probably now passed when savers will be as passive as they were in the inflationary 1970s, when they allowed their deposits to remain inert in building society term shares – or even in bank current accounts – whatever happened to market rates of interest. So it seems safe to assume that Home Loans and its possible imitators will be able to make a turn on the money that they borrow.

For that margin to represent a decent return on the equity, however, seems to require that the business be expanded at a very demanding rate. Assuming a 1 per cent spread between the company's mortgage rate and its cost of wholesale funds, the £1bn book plus any other investment return on the equity base generates a little over £10m to pay overheads and tax before dividends of perhaps £6m. Individual investors may wonder how this compares with building society deposits.

Gearing up the equity base to a size where such doubts vanish – loans of 30 times shareholders' funds ought to produce an adequate return on equity – should immediately open questions of a completely different sort. Having chosen a slot which falls between the Banking Act and the buildings society legislation, Home Loans stands to be regulated neither by the Bank of England nor by the Registrar of Friendly Societies. If Home Loans does indeed become a real commercial success, it will necessarily become a large enough borrower of interbank funds to register on a supervisory seismometer somewhere. The Bank?

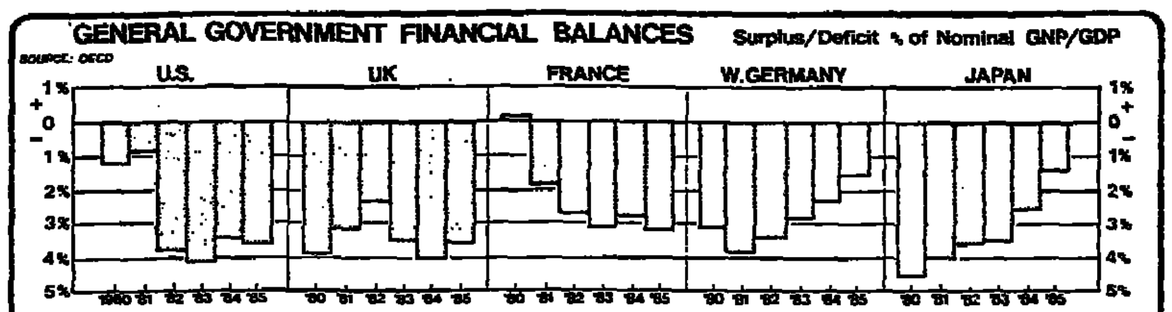
BT shares

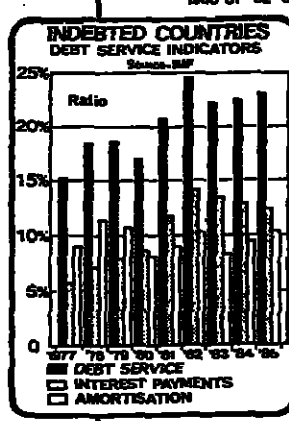
The share-buying public, already cheesed-off by its thin pickings in the recent Britoil sale, will not be best pleased by the weekend admission from Singer & Friedlander about its allocation of BT shares: that a member of the public got a much bigger whack of stock simply by virtue of his being chief executive of the bank. Clearly, the dividing line between individuals and institutions in an exercise such as the BT flotation is a blurred one; but clear distinctions will have to be drawn as the City approaches a period where opportunities for conflict of interest will be greater. Meanwhile those exercising discretion in the allocation of shares must do just that – exercise discretion.

SECTION III

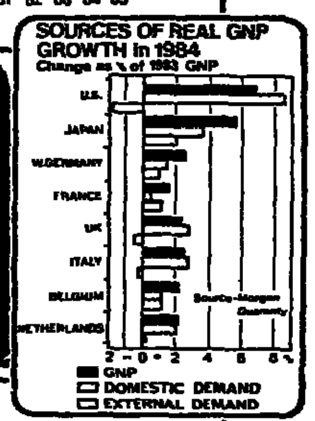
FINANCIAL TIMES SURVEY

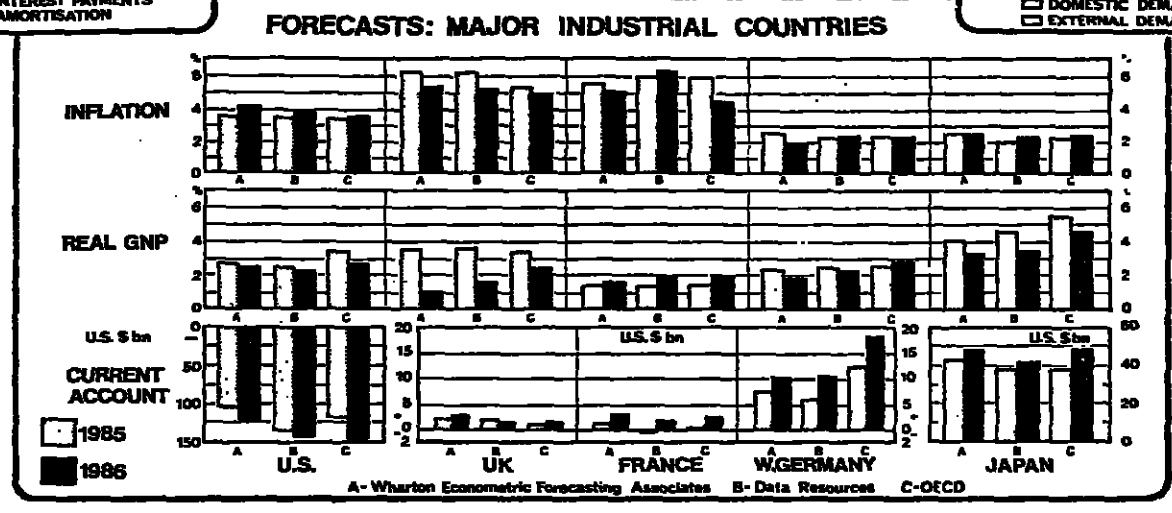
World Economy






Heads of state at this years Bonn Economic Summit





SUPPOSE for a moment that in some convulsion of politics, Japan were to become the 51st state of America. Then some of the worst instabilities hanging over the world economy would apparently vanish.

Japan's chronic trade surplus — expected by some foreigners to climb to $70bn next year—would disappear altogether. The current account deficit of the U.S., now heading for $120bn, would melt away.

This new United States of Pacifica would have a quite respectable deficit with the rest of the world of perhaps $60bn or so, representing only a little over 1 per cent of combined GDP (gross domestic product).

Bearing in mind the huge discrepancies in the world balance of payments statistics, this might be regarded as a perfectly sustainable external position.

The new U.S. Federal deficit, even at $230bn or so, could be financed smoothly by the State of Japan's huge surplus of savings, without creating shock waves for the dollar.

The Japanese yen would of course disappear, so trade would flow as freely across the Pacific as it does now across the vast continent of America; and the fierce arguments now raging in Washington about trade protectionism would, presumably, be a dead letter, at least in relation to Japan.

Pure fantasy of course, but it does point up the difficulty that the U.S. will face in trying to pull out of its alarming slide into debt without damaging the other major economies.

For the two largest free world economies have achieved a balance which may be politically and economically unstable but which makes them now much more interdependent than many Congressmen appear to understand.

If the U.S. needed Japanese savings to finance its pre-election boom, Japanese savers also need assets overseas, since total demand for credit in their own country is much less than the

The U.S. will face difficulty in trying to pull out of its alarming slide into debt without damaging the world's other major economies

Hopes pinned on gentle correction of imbalance

By Max Wilkinson, Economics Correspondent

supply of funds. Given this flow of capital, there must, as a matter of arithmetic be a counter flow on the trade account of the balance of payments.

And it is eminently reasonable in a way that if Japan lends the U.S. the money needed to make tax cuts, the American consumers should use their extra spending power to purchase Japanese goods.

The argument is similar, of

By contrast consumer spending rose by only 2¾ per cent last year and is not expected to move ahead much faster in 1985.

Much of Japan's exports went to the U.S., whose imports soared by 27 per cent. Japan's trade surplus of $35bn was almost all earned in the U.S. and the balancing capital outflow went mainly back to the U.S.

SAMUEL BRITTAN explains on page 10 that the U.S. trade deficit and Japanese trade surplus reflect fundamental differences in savings and investment. Attempts to resolve them by trade restrictions could ignite a world economic conflagration without dealing with the basic problem, if problem it be.

course, if for "Japan" one substitutes "the rest of the world," but the symmetry of interdependence is most striking in relation to Japan.

Last year's 5.7 per cent growth of Japan's economy was largely due to the increase in its exports, which went up by 18 per cent with a phenomenal 26 per cent surge (an annual rate) in the the final ...

This year the sharp deceleration of the U.S. growth rate from last year's 6.8 per cent to an expected 3 per cent or less reflects a continuing worsening of its trade account more than a slowing of the pace of domestic demand.

Although Japan has been the largest beneficiary of the U.S. expansion, it has been estimated that perhaps half of Europe's growth rate last year resulted from the U.S. impulse. The position of third world debtor countries has also been dramatically improved by rises in their exports. Between 1980 and 1984, the developing countries without oil were able to cut their trade deficits from $60bn to $24bn.

So, with growth still sluggish in Europe, little hope of much domestic expansion in Japan and some ominous rumbling from the largest debtor countries, there seem to be many strong arguments why the U.S. should not choose this time to cut its federal budget deficit.

A substantial trimming of the deficit would clearly hit domestic demand just as growth is getting bogged down; and to the extent that a domestic recession trimmed the trade deficit, the prosperity of other nations would inevitably clearly be hit.

For the U.S. cannot cut its trade deficit without a matching cut in some other countries' surpluses. And the difficulties of this adjustment might well be multiplied if it precipitated a major recession. However, this could be offset by the effect of lower interest rates following a deficit cut.

Yet few doubt that the adjustment must be made sooner rather than later. The U.S. is now adding to its external debts by the equivalent of 3 per cent of GNP per year. Interest payments on federal debt have been rising significantly faster than national output and at over $100bn per year are now a major part of the deficit.

As Herr Karl Otto Poehl, president of the West German Bundesbank, says in an interview in this survey, it has been calculated that at the present rate the U.S. external debt could reach $1,000bn by the end of the decade, which he believes would be "inconceivable" in practice.

This raises three questions: the first is whether the U.S. Congress will find the will to take the steps needed to cut the projected budget deficit; the second is whether the other industrial countries can do anything to soften the consequences; and thirdly, what is the risk of doing nothing?

The usual answer to the last of these questions is that sooner or later the financial markets will take fright at the spectacle of the U.S.'s growing indebtedness, and the dollar would collapse. This could lead to a big increase in inflationary pressure, a sharp rise in U.S. interest rates in defence of the currency and a serious recession.

To minimise these dangers it has been suggested that Japan and Europe (particularly West Germany) should stimulate their economies, both to keep up the momentum of world growth and to take pressure off the U.S. trade deficit.

There was remarkably little enthusiasm for this idea at the seven power economic summit meeting in Bonn in May, but

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CONTENTS

WORLD ECONOMY 2

Volatility a threat to system

Monetary reform

MAX WILKINSON

THE fall of the dollar during the spring and early summer has taken much of the steam out of the demands for a thoroughgoing overhaul of the world's monetary system.

Nevertheless, in the words of one strongly free-market official, "There is a growing perception that the system of floating exchange rates has delivered some pretty bizarre results."

This was the basic dilemma behind the 60-page report on the International Monetary System agreed by finance ministers and central bank governors at a special meeting in Tokyo in June.

They agreed that the system of floating rates had been subject to short-term volatility and *medium-term swings* which were "a potential threat to the open trading and payments system."

Most countries believed that it would be unrealistic to try to return to a system of fixed exchange rates, or even partially managed rates at present, but they all agreed that "improvements are needed in the functioning of the present system."

The improvements suggested, however, were of an extremely general nature, amounting to little more than an exhortation to countries to return to "sound consistent policies," with some suggestions for an increased "surveillance" role in relation to the major industrial powers.

The main focus of anxiety of course, has been the extraordinary rise of the dollar, which went up by 60 per cent between 1980 and its peak in February of this year. This rise continued in the face of a rapidly worsening current account of the balance of payments and in spite of an overwhelming consensus among central bankers at the beginning of 1984 that the currency would soon decline.

This led many people to look back with nostalgia to the days of fixed exchange rates under the Bretton Woods system. Developing countries particularly, believed that violent currency swings were damaging to trade and had dramatically worsened the position of many debtor nations whose debts were in dollars, but whose foreign earnings might be in other currencies.

These views will no doubt be aired again at the International Monetary Fund's annual conference in Seoul, South Korea, this autumn.

Among the developed nations, France has taken the lead in championing this cause ever since the seven power economic summit meeting in Versailles in the summer of 1982.

France's Socialist Government was still smarting from the humiliation of having been forced by the foreign exchange markets into a major reversal of its expansionary policies.

As the French franc came under heavy and repeated pressure within the European Monetary System, French officials naturally looked for someone else to blame. And they could argue plausibly that part of their problems resulted *from the imported* inflationary pressures transmitted through the dollar.

U.S. officials retorted scornfully, at that time, that the answer was for France to put its own house in order by reverting to a more prudent fiscal and monetary stance.

Most of the industrial powers, particularly the U.S., the UK and West Germany were strongly and in some cases ideologically opposed to any move back towards a system of managed exchange rates.

Since then the tables have been turned. The U.S. stands in the dock before the rest of the world accused of imprudent policies, and it can no longer laugh off the effects on its own domestic economy.

> The U.S. stands in the dock before the rest of the world accused of imprudent policies, and it can no longer laugh off the effects on its own economy.

The country's growing foreign indebtedness and the surge of protectionist feeling has brought it home to many Americans that a high dollar could be dangerous to their economic health.

The UK and to some extent West Germany have also been directly embarrassed by the rise of the dollar. In the case of West Germany this prompted some hefty intervention in the foreign exchange markets at the time of the last IMF annual conference and then again in the early part of this year to prevent the dollar soaring beyond DM 3.

In the case of the UK, the threat of parity between the pound and the dollar in February forced a major shift of policy emphasis, with a tightening of the fiscal reins accompanied by a 4½ perecentage point rise in banks' base lending rates.

This defence of the pound was associated with an emergency meeting of the five *major* powers, the U.S., Japan, West Germany, France and the UK in Washington, where it was decided to publicise an agreement to co-ordinate intervention to push the dollar down.

Some $10bn dollars of official reserves were spent after this agreement, and it is still debatable whether it had much effect.

For a while the markets seemed to ignore this huge array of moral and financial weight ranged against the U.S. currency, and the much publicised scepticism of many in the U.S. administration seemed justified.

However, the subsequent fall in the dollar — by 11½ per cent from its February peak to the beginning of September — seemed to suggest that market sentiment *had been influenced* in a fundamental way.

It will be some time before a judgment can be formed against the perspective of history. Meanwhile, there does seem to have been a significant shift of attitude among the authorities. The idea that governments *could frame their* policies entirely without reference to the exchange rate, leaving their currencies to find their own level in the markets, now has few adherents even in the U.S.

And not many experts would say that the markets know best, *or produce desirable* results from the point of view of the world economy.

Officials may say they do not know what a correct exchange rate should be, but everybody agrees that a dollar is not worth the DM 3.39 which it reached at the end of February.

Does this mean that the authorities are in effect moving very tentatively towards the idea of target zones? After all most central bankers would agree that the dollar needs to be some 10 to 20 per cent lower than its current value, but that a 30 to 40 per cent depreciation would be far too much.

Some people argue that the mere announcement by the authorities of a desirable range for major currencies would have a stabilising effect, while the threat of concerted intervention could at *least deter* the *more* volatile speculation.

The success of the European Monetary System's exchange rate mechanism is cited as an example, and it has been suggested that the authorities could take some public view about the relationship between three currency blocks based on the dollar, the yen and the EMS currencies.

However, there is no sign of any political will to move in this direction; and as the G10 report shows, the practical difficulties would be enormous.

Ultimately, of course no fixed or semi-fixed exchange rate system can hope to withstand pressures arising from major disparities in economic policy. The foreign exchange markets would be more than a match even for the combined reserves of the industrial powers if it came to a straight fight.

And for that reason, there is little practical purpose in discussing target zones or "crawling pegs" until the U.S. has reduced its federal and trade deficits and brought the dollar back to a sensible rate in terms of its trading position.

Then comes the imponderable question: would some form of constraint on exchange rates act *as an external discipline* on politicians, forcing them to eschew policies which offer a short-term gain at the expense of a longer-term equilibrium? Or must exchange rate stability depend on the politicians following prudent policies in the first place?

The answer underlines the sense of grievance of many smaller nations; for it is clear from the example of the EMS that an exchange rate discipline can be a powerful lever on the policies of smaller nations, but it confers corresponding obligations on the larger countries.

Without monetary and fiscal discipline in West Germany, the *EMS would be chaotic. Without* a similar restraint on leadership in the U.S. any more regulated form of world monetary system is unthinkable.

Prime Minister Nakasone of Japan (left) and U.S. President Ronald Reagan (right). The two largest world economies have achieved a balance which may be politically and economically unstable but which makes them much more interdependent than many U.S. Congressmen would appear to understand.

Hopes pinned on gentle correction

CONTINUED FROM PAGE 1

since then there have been some limited indications that West Germany is prepared to push up domestic demand by cutting taxes and lowering interest rates.

In France and the UK too, tax cuts have been promised although the scope for increasing borrowing looks very limited in both cases.

In Japan, the Government is anxious to continue to cut its budget deficit, which at 3½ per cent of GDP in 1983 was proportionately almost as large as that in the U.S. Although the Japanese general Government deficit is projected to come down to only 1 per cent of output next year (compared with about *3½ per cent for* the U.S.), Japan's national debt remains very high by international standards. In 1983, it was 67 per cent of output compared with 46 per cent in the U.S. and only 41 per cent in West Germany.

While these considerations are seen to rule out any major *fiscal reflation in Japan* a policy of cutting interest rates might also create problems.

In the short-term it might depress the yen against the dollar and so increase Japan's trade competitiveness vis a vis the U.S. even more. The competitiveness of its goods might also be increased in a more fundamental way if lower interest rates stimulated Japan's domestic investment.

What remains, is the hope that Japan will continue to lower its barriers against im*ports, which is highly desirable,* but unlikely to have much impact on the U.S. trade deficit in the medium term.

The main hopes of the industrial powers are therefore pinned on the prospect of some very gentle reflation in Europe, supplemented by action on trade by Japan in combination with a further gradual fall of the dollar.

Oxford Economic Forecasting, based on the new Templeton College has calculated that after three years a 10 per cent depreciation of the dollar would reduce the U.S. trade deficit by about $18bn with an inflation penalty of an extra 2 per cent on prices.

The U.S. Fed believes the effect on the current account would be closer to $15bn.

By contrast a 1 per cent reflation in Europe would only reduce the U.S. current account deficit by $2bn, but it would offset the depressing effect on output of a declining dollar or a cut in the U.S. federal budget deficit.

A $50bn cut in the budget deficit is estimated to cut the current account deficit by $31bn after three years, but at the cost of depressing U.S. output by nearly 2½ per cent and European output by 1 per cent.

In comparison with Europe's sluggish rate of growth—only 2.4 per cent last year, with little expectation of a pick-up this year or next—the depress*ing effect of a U.S. adjustment* could be serious.

Even on present trends, unemployment is not expected to fall significantly from the present level of about 11 per cent of the available working population.

Although almost all governments in Europe can claim success in reducing or containing inflationary pressures, unemployment seems likely to be one of the most pressing political issues, certainly in the UK, and probably in West Germany and France.

For this reason, perhaps, goverments might be tempted *to move* covertly in the direction of Reaganomics—that is to concede tax cuts on the basis of higher borrowing with a tight monetary policy designed to keep inflation damped down.

The continued weakness of world commodity prices and the possibility of further falls in the *price of oil, might* indeed encourage governments to take some risks on the inflationary side of the account.

But for the time being, most of the focus appears to be on interest rate policy in the hope that continued declines in the dollar will allow a continuation of the more or *less parallel* decline in U.S. and European interest rates which started in the spring.

The easing of West German money market conditions and the cut in short-term interest rates this summer seems to have been part of this process.

With careful co-operation, the world's monetary authorities may hope to create a circle in which the dollar continues a slow decline while interest rates edge downwards on both sides of the Atlantic; for it is clear that an equilibrium could be reached at quite different general levels of interest rates.

The trick will be to achieve a combination of lower inflation and lower interest rates that will be expansionary either by diverting savings into consumption or by boosting investment.

This would be part of the much discussed "soft landing" for the dollar and the U.S. economy, but there is a serious danger that the whole apparatus will come down in flames, especially if the U.S. Congress continues to be hell-bent on a self defeating round of protectionist measures.

Apart from threatening the world's trading system, these would be self defeating, not least because they would tend to push the dollar back upwards. But the dollar must eventually come down, and the most likely way for this to *happen* would then be through a collapse of market confidence.

THE NIKKO PERSPECTIVE

ON WHAT A Japanese Investment Bank's Global Role Should Be

HOW DO *you view recent trends in the Tokyo capital market?*

Umemura: This past year, the pace of development has been rapid. In keeping with the directions set forth in the report of the U.S.–Japan Yen–Dollar Committee in May 1984, the authorities liberalized the Euroyen market, established a yen bankers' acceptance (BA) market, and further broadened the participation of foreign securities companies in the market—as lead managers of Euroyen bond issues, as participants in syndicates to underwrite government bonds in Japan, and in other activities.

It was also an important year because the terms at which long-term government bonds were being issued more closely reflected yields in the secondary market.

The introduction of a BA market was a significant step toward development of a short-term money market, but this market is only in its initial stage. I believe that a precondition for the growth of the BA market is the introduction of a full-fledged treasury bill market.

A comparison with other countries is revealing. The size of the short-term money market in Japan is only one-tenth that of the United States, although the size of our economy is one-third that of the United States. Even compared with the size of the Japanese capital market, the short-term money market is small. For the efficient functioning of a capital market and the smooth adjustment of interest rates to market forces, the short-term money market must be expanded. Thus, in addition to yen BAs and existing short-term government bonds, Japan needs to create and build a treasury bill market.

WHAT DO *you see as the longer-range implications of recent developments in the Tokyo market?*

Umemura: As is evident from events of the past year, the rapid pace of deregulation is both diminishing administrative controls and steadily dismantling the previous shelters that have protected many Japanese financial institutions from the full force of competition.

More important, liberalization is presenting us with new business opportunities, and at Nikko, we have moved quickly to rationalize our internal operations and to allocate managerial resources to the most promising business opportunities.

RECENTLY, MANY *analysts have drawn attention to the emergence of Japan as the largest net exporter of capital in the world. What is your perspective on these flows?*

Umemura: From an economic standpoint, the growth of capital outflows is related to the rising surplus in the current account of Japan's balance of payments. This surplus is projected to be $39 billion in the current year and $48 billion next year. It is only natural that Japan reexports its earnings from trade.

Securities investment accounts for approximately one-half of capital outflows. This is the result of the growth of financial assets in Japan and the desire of investment managers to diversify their portfolios. Over the past year or two, both institutions and individuals in Japan have been attracted by high returns overseas. The trend toward international diversification of portfolios should continue.

I would also note the high level of capital inflows as more international investors diversify their portfolios to include Japanese securities. Thus, although both capital inflows and outflows will continue to grow, I believe that Japan will remain a net exporter of long-term capital for some time.

AS THE *Tokyo market expands and capital flows increase, what issues do you see facing Nikko Securities as a global investment bank?*

Umemura: There are three strong currents in the financial services industry: deregulation, internationalization, and the growing reliance on information systems. In these currents, we must steer a course that will not only keep us in the lead in our traditional businesses but take us into new waters.

Although we could debate the merits of our strategy, we have chosen to remain a full-service financial institution committed to serving both individuals and institutions. Over the years, our customers have assumed they can come to us for any service, and we will not disappoint them.

In providing a full range of services, we are striving for balance. For example, the ratio of profits from equities-related business and of those from other securities, such as bonds and investment trusts, is now 65:35. We are gradually moving it toward 50:50 by building our capabilities for trading and placing bonds. This has involved adding staff to our bond operations both domestically and abroad. We look forward to the introduction of a bond futures market next month and are prepared to take advantage of the opportunities—for our clients and ourselves—that such a financial futures market offers. There is also talk of launching a detachable warrants market in the near future.

Another means of achieving balance is to make use of our natural strengths. Because we are based in Japan, we believe we have an advantage for yen-linked products as the role of the yen as an international currency grows. And as I just mentioned, we are in an excellent position to help Japanese investors who want to invest abroad.

We also want good geographic balance and already have a solid position in all the major markets. For example, we are very strong in Samurai bond underwritings for Pacific Basin countries. This position is attributable to our long involvement in the region. For years, we have been active in the Republic of Korea. In the People's Republic of China, we recently opened a representative office in Beijing and are preparing for another one in Qingdao.

As the core economy in Asia, Japan must play a growing role in assisting its neighbors raise the capital necessary for economic development—and develop their own capital markets. We take this responsibility seriously at Nikko.

WHAT OBJECTIVES *will you be pursuing over the next five years?*

Umemura: I think the strategy I just outlined points to where we want to be five years from now. By then, we are aiming to have more than 110 offices domestically and more than 20 abroad, all linked as a global network. And we intend to provide a range and quality of service—for individuals and institutions in Japan and internationally—that will give us an edge on other excellent investment banks.

Shoji Umemura

President since 1981, Shoji Umemura has 52 years of experience with Nikko Securities. He is currently serving as Chairman of The Bond Underwriters Association of Japan.

WHAT RESOURCES *are required to compete internationally?*

Umemura: The answer to that question starts with financial resources. Nikko has an equity base of ¥420 billion, or about $1.7 billion. This ranks us among the top three securities companies in the world.

Naturally, we must also have the human resources and creativity to best use our capital resources. Quite honestly, Japanese financial institutions do not always compare well on technical skills. Part of the reason is historical. For instance, I think the leading American banks are ahead of their Japanese counterparts in global cash management. But then, Japan has not had a large money market in which to invest liquid assets.

To cite what is both a Japanese and Western maxim: necessity is the mother of invention. The necessity is evident in Japan. The large volume of government debt issues is leading to the rapid development of a secondary bond market. Liberalization of interest rates has forced the design of new savings instruments. Slower economic growth has prompted corporate treasurers to find the lowest-cost capital, thus leading to disintermediation.

Nikko has contributed its share of innovations in the past, and I am confident that we will continue to in the future. Back in 1961, we were the first to create and offer a bond investment trust fund in Japan. More recently, in 1984, we introduced Home Trade One, the first home brokerage system using a push-button phone to place buy and sell orders.

Our international accomplishments go back many years. In 1961, we were instrumental in setting up the Japan Fund in the United States. This past year, we launched the first Euroyen money market fund, which is based in Luxembourg.

For a company generally recognized as being bound to tradition, I think we have demonstrated we can be effective marketers of innovative services. But they must be services needed by our clients. I am continually saying that we must grow with our clients.

WHAT PARTICULAR *services do your clients want from you, and what are you doing to provide them?*

Umemura: Since our clients want a variety of services, we are relying on the combined resources of Nikko itself, our overseas subsidiaries, and such members of the Nikko Group as the Nikko Research Center, Ltd.; the Nikko Securities Investment Trust Management Co., Ltd.; Nikko International Capital Management Co., Ltd.; and Nikko Venture Capital Co., Ltd.

One service our corporate clients want is global underwriting. The development of the Euroyen market and the emergence of the yen as an international currency have prompted us to strengthen our international network of 18 offices. We have put additional capital into our American and Luxembourg subsidiaries and are in the process of establishing a merchant bank in Sydney. In Paris, we plan to upgrade our representative office to a subsidiary.

Another service in high demand is global dealing, and we have placed a high priority on expanding our capabilities in this area. To minimize market risk, dealing skills are an essential complement to our brokerage and underwriting skills. We are putting in place a 24-hour dealing system centered on our operations in Tokyo, London, and New York. In another move to help our clients hedge risk, we have become a member of the major financial futures and options exchanges.

Our customers also want fast delivery of, and easy access to, a variety of products. To meet the domestic demand for variety, we recently opened a credit card company and have ventures with other companies to provide particular services. To meet the demand from customers around the world for faster delivery of services, we have been upgrading our data processing and telecommunications systems.

To provide any of these services, we must also invest in people. After highly selective recruiting, we spend considerable time and effort on training new employees. For highly specialized areas—such as bond trading, swaps, foreign exchange, and computer systems—we are structuring our organization to promote specialization. And overseas, we have been fortunate in recruiting top-level individuals for senior positions.

WORLD ECONOMY 4

Decline unlikely to continue

Interest rates

MAX WILKINSON

THE GRADUAL decline of U.S. short-term interest rates through the spring and early summer seems unlikely to continue for the time being, as the authorities turn their attention to the inflationary risks of an overshoot of the money supply with the possibility of some bounce-back of the American economy.

But probably the main reason for caution is the U.S. Federal Reserve's (Fed) fear of triggering a really sharp fall in the dollar, leading perhaps to panic in the markets and a collapse of confidence in the currency.

Few doubt that in these circumstances that U.S. interest rates would then have to be pushed back up to levels which would bring the risk of a serious recession.

The Fed is therefore engaged in a difficult balancing act for which it probably needs a considerable amount of co-operation from the other major industrial countries, particularly the UK, West Germany and Japan.

On the one hand it is important for the Americans to keep the momentum of the dollar gently downwards. This is essential in the short-term to keep in check the damaging and self-defeating moves towards protectionism which are now rife in Congress. In the longer term it is necessary to achieve an orderly reduction in the country's huge trade deficit.

During the first part of 1985 an easier money policy was also seen as desirable to keep up *the momentum of economic* growth in the face of evidence that last year's rapid expansion had almost stopped.

However, in his mid-year testimony to the Senate Banking Committee, Mr Paul Volker, the Fed's chairman, suggested that he was worried about the possibility that continued rapid growth of M1, the narrowly defined money supply, could rekindle inflationary expectations and so contribute to a much sharper drop in the dollar.

He also made it clear that he attributed the decline of the dollar since its peak in February to the downward movement in U.S. interest rates relative to those in *other* countries, as well as to "changing expectations, influenced to some extent by further increases in the trade deficit."

The major change in relative interest rates occurred in February at about the time of an emergency meeting of the financial leaders of five major powers to discuss measures to bring the dollar down.

As a result of acute pressure on sterling, UK short-term interest rates were pushed up sharply to 14 per cent, where they remained until towards the end of March.

At the same time the easing of U.S. monetary policy arrested the rise of short-term U.S. rates which had gone up from around 8 per cent at the turn of the year to a peak of just over 9 per cent. The effect of these moves was to increase the gap between UK and U.S. *three-month* interest rates from 1 percentage point at the beginning of the year to 5 percentage points by the end of February.

In real terms the difference was perhaps not as great, since U.S. inflation remained subdued at about 3½ per cent, while the UK inflation rate as measured by the Retail Price Index rose sharply from about 4½ per cent at the end of last year to 7 per cent by mid-summer.

However, some of this was temporary and perhaps artificial, reflecting the effect of higher interest rates on housing costs, so that the rise in "real" UK rates may have been only a little less than the increase in nominal terms.

Since the early spring, short-term interest rates in the U.S. and in Europe have moved down more or less in step, with Japanese rates more or less unchanged. However, in July and August, West German interest rates fell quite steeply relative to those in the U.S. and the UK.

> There is little argument that in historic terms real interest rates remain exceptionally high.

This reflects the anxiety of the West German authorities to stimulate the economy to the limit of what they consider prudent to take up the slack left by the slower U.S. rate of economic expansion.

However, it is also in the interests of West Germany that the dollar should fall to a more sensible level fairly quickly (though not too precipitantly).

Obviously lower German interest rates will tend, other things being equal, to hold the dollar up, and there may have been a hint of this happening in the early part of September.

So for the West German Bundesbank, as for the British authorities the game is a subtle one of testing the markets *little by little* to find out the limit to which interest rates can be pushed down without creating too favourable a sentiment towards the dollar.

This will be a particularly delicate task in the coming months, because there seems to be a general feeling that the Fed has reached the limit of its scope for pushing short-term rates down.

Nevertheless, there is little argument that, in historic terms, real interest rates remain exceptionally high. Estimates by the Paris-based Organisation for Economic Co-operation and Development suggest that on various measures, short-term real interest rates (after allowing for past or for forecast inflation) in the industrial world settled at around 4 to 5 per cent in the early part of this year.

However, there are now more significant differences, with real short-term rates now less than 4 per cent in the U.S., about 2½ per cent in West Germany, but *still* 4½ per cent in the UK — or perhaps nearer 5½ per cent if prospective rather than past inflation is taken into account.

Longer term interest rates appear to give a more accurate reflection of "fundamental" relationships between available savings and demand for credit.

In the U.S., where rapid expansion and the increased Federal Budget deficit have pushed loan demand well above the supply of savings, real long-term interest rates remain high.

Although real long-term rates cannot easily be guessed since they depend on future inflation rates, the Bank for International Settlements in Basle (the central bankers' bank) estimates that U.S. long-term rates at the beginning of this year, remained at the historically high rate of over 8 per cent.

By September this had come down to perhaps 7 per cent on the basis of past inflation. However, this was far out of line with estimates for real long-term rates in *other countries* which were fairly closely bunched in the range of 4½ per cent to 5½ per cent last year.

Onus put on structural reform

Unemployment

MICHAEL PROWSE

A STAGGERING 30m people are unemployed in the member countries of the Organisation for Economic Co-operation and Development (OECD). The real world total, of course, is much higher because the OECD figures cover only a selection of comparatively rich, non-communist industrialised economies.

There are no comprehensive statistics for unemployment in the developing economies of the *third* world. But in its 1985 annual report, the International Monetary Fund (IMF) warns that the employment outlook in such countries had almost certainly deteriorated substantially in recent years.

The global waste of human resources resulting from unemployment has been growing steadily more serious since the late 1960s. *In 1969*, the average rate of unemployment in OECD countries was fractionally above 2½ per cent of the labour force. By 1974, it had risen to 3½ per cent and by 1979 to just over 5 per cent. This year OECD unemployment will probably average just under 8½ per cent.

This steady increase has been superimposed over the normal *economic cycles over the past* 15 years—which is why many economists believe the root cause must be mainly "structural" rather than demand-related.

Both official and unofficial forecasters seem convinced very high world unemployment is here to stay. U.S.-based Wharton Econometrics, for example, argues the worldwide recovery is "too sluggish" to have a significant impact on unemployment. It sees little improvement before 1990.

The OECD is equally gloomy. In its most recent assessment it predicts world unemployment *will continue to drift higher*. By the second half of 1986, it thinks the jobless total will stand at 31¼m compared with 30½m *in the first half of 1985*.

The World Bank, the IMF and the United Nations Conference on Trade and Development (Unctad) have all expressed similar pessimism in separate assessments of medium-term trends.

The conventional wisdom about the unemployment outlook is matched by a *conventional wisdom about its causes* and the most viable long-term cures.

Governments recognise that the problem can be tackled in two ways: by striving to stimulate the demand for labour and by seeking to curb the supply of labour.

In continental Europe, in particular, the second option has been taken quite seriously. Work sharing schemes have been introduced, early retirement encouraged and guest or foreign workers repatriated.

However, attempts to choke off the supply of labour could have damaging long-term implications. The populations of many developed *economies* are ageing rapidly: the ratio of pensioners to potential workers is increasing.

In principle, many developed economies need *more* rather than fewer workers if existing pension promises are to be honoured. Repatriation of guest workers, shorter hours and earlier retirement *thus* makes sense only as a short-term expedient.

What about efforts to stimulate the demand for labour? The form these have taken has been moulded by two factors: fear of inflation and a belief that much of the unemployment is structural.

The result is that governments, by and large, have *not* attempted to increase the demand for labour by boosting the demand for final output. *Since 1980, fiscal and monetary* policies have been restrictive with the important exception of the U.S. The large U.S. *fiscal stimulus*, however, *did* not reflect any conviction on President Ronald Reagan's part that this would create jobs: it was *rather the unintended*, unwelcome but inevitable consequence of his simultaneous desire to lower taxes and increase *defence spending*.

The fact that the unintended policy has had a large measure of success has had surprisingly little impact on anti-unemployment policies elsewhere. At just over 7 per cent, U.S. unemployment is within striking distance of the 5 per cent rate enjoyed in the early 1970s. Unemployment in the EEC at 11 per cent is by contrast nearly four times the 3 per cent rate which in the early 1970s was regarded as worryingly high.

In Europe, governments believe that much of unemployment is caused by the rigidity and inflexibility of labour markets and the excessive compression of wage differentials within industries and between youth and adult workers.

To combat these shortcomings they have embarked on a series of reforms. Some governments, including those of Iceland, Italy, Holland and Belgium, have taken an axe, or at least a hacksaw, to wage indexation provisions which can impart an almost autonomous momentum to wages.

At the same time, bolder governments have begun to overhaul the legal framework governing employment. The trade union reforms of the *Thatcher Government* are a good example.

Efforts to relax hiring and firing rules are another: France, West Germany and Spain, for example, have encouraged the use of fixed-term labour contracts.

The severity of youth unemployment is leading to modifications in time-honoured collective bargaining agreements: it is no longer taken for granted that youths should be paid a pre-set percentage of adult pay. In Britain young workers are to be removed from the remit of the Wages Councils which set pay rates and conditions in many service industries.

A host of other structural reforms are occurring. There is a greater emphasis of vocational training, for example, to cope with the perceived problem of a mismatch of skills: workers losing jobs in old declining industries may therefore eventually become employable *in the new growing sectors*.

Social security benefits have been curbed in several countries including Britain, Holland and France. Some tentative moves have been made to counter the secular growth of "non-wage" labour costs *such* as payroll taxes and ever-heavier contributions for pensions and other benefits.

Recently, however, economists have focused on the growth of real wages relative to increases in labour *productivity* as a possible cause of long-term unemployment.

The data is by no means conclusive. The "wage gap" as it is known has, according to OECD calculations, been at least as great *in* Japan over the past decade as in Europe, yet Japan has suffered only mild unemployment (at least on the basis of the official figures). IMF calculations suggest that in the U.S., even while unemployment has moderated, real wages have run ahead of productivity.

Even if real wages are the culprit, a solution to unemployment *is still* a long way off. Most governments have little idea of how to restrain the growth of wages and continue to eschew formal incomes policies.

While they remain cautious about macroeconomic stimulation, *the onus is pushed onto* structural reforms to remove rigidities. The bad news for the jobless 30m is that this policy may pay dividends only in the very long-term.

Road to recovery not as smooth as anticipated

Third World debt

PETER MONTAGNON

IF EVERYTHING had gone according to plan the developing country debt crisis should have been over by now.

Three years of major rescheduling efforts culminating in arrangements to defer debt repayments falling due for many years ahead should have lifted the payments squeeze facing many of the world's poorer countries.

That in turn would have allowed them to return to normal borrowing in international capital markets and the world could have heaved a sigh of relief and turned its attention to other things.

The symbol of this turning point on the road to recovery was to have been the signing by Mexico on August 29 of the last part of its $49bn public sector debt rescheduling agreement, deferring debt payments falling due between now and the end of 1990.

It was utterly appropriate, bankers said, that Mexico, whose crash three years ago signalled the onset of the crisis, should be the first major borrower to secure a long-term solution of its debt problem.

Instead something went badly wrong. Mr Jesus Silva Herzog, Mexico's Finance Minister, used the occasion of the signing to warn in a keynote policy speech that the crisis was far from over. Unless more action was taken, developing countries could find themselves unable to meet interest payments on their foreign debt. The world still faced a systemic problem beyond the power of any single country to resolve, he said.

The tone of his remarks came against the background of looming strains elsewhere in Latin America. In Brazil, President Sarney had replaced his monetarist Finance Minister, Francisco Dornelles, and central bank governor, Antonio Carlos Lemgruber, with a new team expected to pursue a more expansionist economic policy that seemed bound to lead to confrontation with the International Monetary Fund.

Peru's new President, Alan Garcia, had announced an unilateral limit of $350m, or 10 per cent of exports, on debt service payments. Though its debt of $14bn is too small for a default to rock the international banking system, Sr Garcia had at least spoken the previously unspeakable.

And on the sidelines Cuban leader Fidel Castro was undermining public support for IMF style austerity in Latin America by urging the region to default. So just what has gone wrong?

The first, and clearest problem, that Sr Silva Herzog himself alluded to, was that three yers of unparalleled austerity in Latin America have failed to restore the region's creditworthiness. Bank creditors who had insisted on International Monetary Fund programmes as a cornerstone of the cure to the debt crisis were not prepared to honour adherence to those programmes with new loans.

In other words, all the sacrifices made by Latin America to put its house in order seemed suddenly to have been in vain.

Bruised by the events of the past three years, banks simply seem to have lost their appetite for international lending. In the first quarter of this year loans outstanding to borrowers outside the main industrial countries fell for the first time since records started.

Such a restrictive attitude on the part of lenders was doubly worrying at a time when the U.S. economy seemed poised to slow down. For it was the boom in the U.S. which had helped debtor countries to boost their exports to record levels in 1984.

A slowdown in the U.S. means fewer exports and less money to meet interest bills, let alone finance a resumption of economic growth and a badly needed revival of living standards.

Without such revival of growth it has now become very hard for the governments of Latin America to sell a policy of meeting payments on foreign debt.

The new regime in Brazil has switched its priorities away from controlling inflation and maintaining an orderly balance of payments. Instead it wants to achieve a basic 5 per cent rate of real economic growth which is seen as the minimum needed to cope with the new priority, that of alleviating poverty.

Such a growth rate cannot be achieved by following the IMF prescription of a 5 per cent operating surplus for the budget. The consequence is that Brazil may simply decide to jettison the IMF.

What is therefore clear is that this year's International Monetary Fund meeting in Seoul, South Korea is likely to see a resumption of calls by the developing world for a new and more imaginative approach to handling their problems.

Here there are two main points at stake: the degree to which developing countries have a right to expect inflows of foreign finance to fund their development and the degree to which creditors have a right to impose policy conditions through the IMF for providing such a flow of finance.

Since the debt crisis started, developing countries in Latin America have suffered a net outflow of capital as interest payments exceeded the provision of new loans. Now pressure is intensifying for that situation to change.

But as commercial banks are unwilling to provide new loans the pressure will increasingly be directed at the official sector. Governments themselves will be asked to back the provision of credit either directly, in the form of export finance or through the vehicle of institutions such as the IMF and World Bank.

Two mechanisms which might come under scrutiny here are some sort of IMF interest rate subsidy which will limit the cost of debt servicing at a time of high rates or the provision of guarantees by the World Bank to back commercial loans.

Neither of these ideas is popular in the developed world, but they might eventually be seen as more desirable than a unilateral decision by developing countries to withhold part of their debt service.

In any case a decision to channel more official resources to developing countries is in practice a far easier one than dealing with the second of the two main problems that now have to be dealt with.

The role of the International Monetary Fund is a far thornier question. This is partly because IMF prescriptions for developing countries do contain some basic if unpalatable truths. The main point is that no country can expect to establish a sustainable balance of payments position if it also fails to control inflation through basic fiscal and monetary discipline.

Hyperinflation makes exchange rate management impossible and that quickly makes exports uncompetitive. Without an orderly balance of payments and control over inflation there is, however, no prospect of a lasting return to economic growth.

Argentina finally recognised this point during the summer as its inflation rate topped 1,000 per cent. It has now reached a new agreement with the IMF and signed a $13.5bn rescheduling agreement with bank creditors who are to provide an additional $4.2bn new money loan.

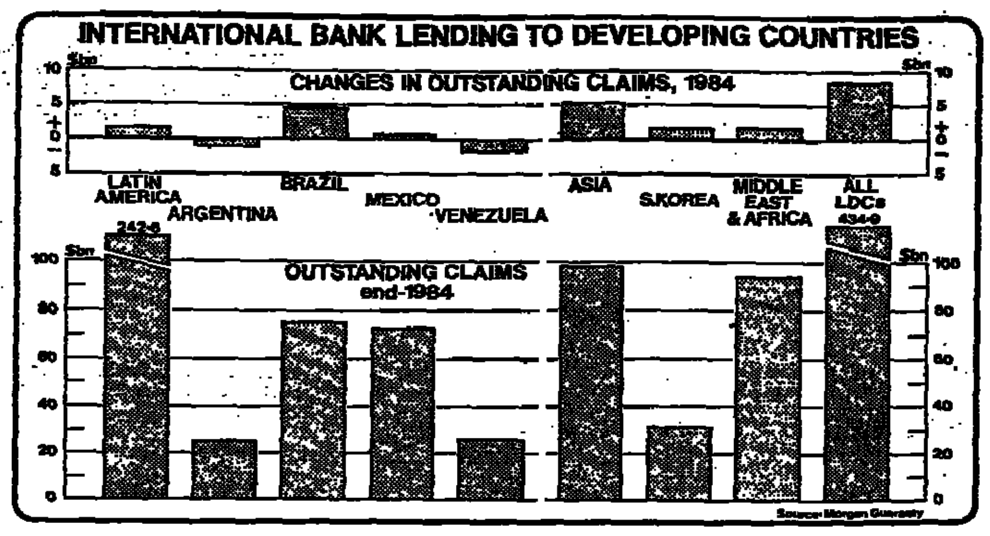
More important, psychologically, however, than the settlement with its bankers has probably been the revival of business confidence in Buenos Aires as the anti-inflationary policy has begun to bite. For once business is able to get away from short-term cash management and start to work again on long-term growth and investment strategy.

The case of Argentina is bound to be used by Western countries as a reason why countries like Brazil ignore the IMF at their peril.

Only after hyperinflation and total economic chaos loomed did Argentina agree to work properly with the IMF, and when it did the benefits began to show very quickly.

But the problem is not quite as easy as that. The failure of the cure elsewhere has led many politicians and economists in Latin America to question the competence of the IMF to deal with their problems. Solutions that might work in a developed country or on a computer model do not take into account the special circumstances of developing countries, they say. The IMF must therefore adapt its prescriptions accordingly.

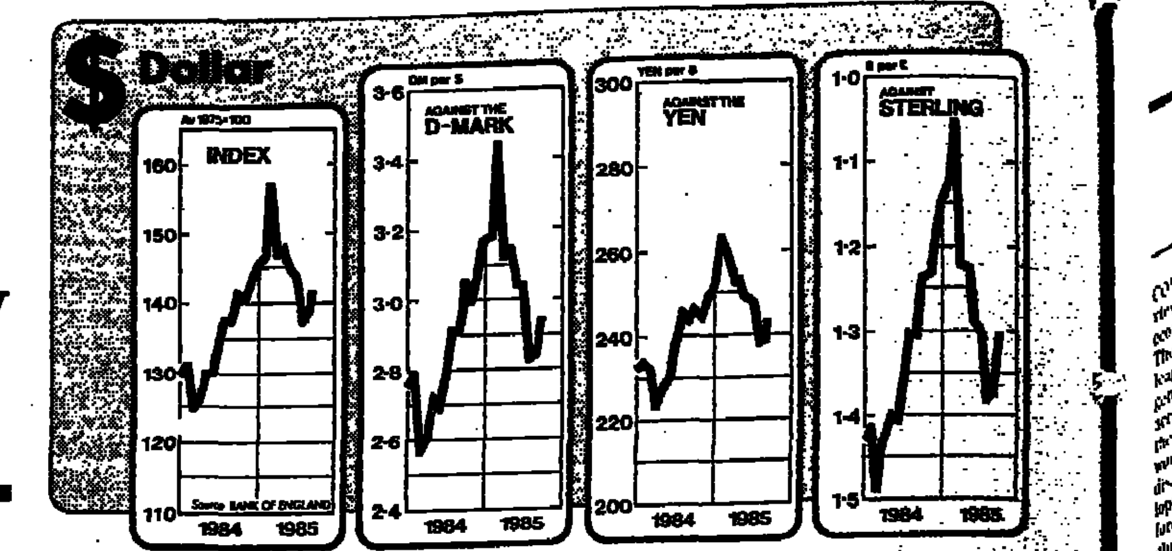
Whether and how it will do so remains to be decided, but one thing is clear. This is an issue that is coming to a head in the case of Brazil. There is a lot at stake for both sides. The fight will be long and bitter.



Mr Jesus Silva Herzog, Mexico's Finance Minister, warned in August that the debt crisis is far from over

Peru's President, Alan Garcia (above), has announced a unilateral limit of $350m, or 10 per cent of exports, on debt servicing payments. President Sarney of Brazil (below) has replaced his monetarist Finance Minister, Francisco Dornelles, and the country's central bank governor, Antonio Carlos Lemgruber.

Dollar still has some way to fall



Currency markets

PHILIP STEPHENS

SO FAR it has been a soft landing. The recent flurries on foreign exchange markets have shown that dealers still frequently feel more comfortable buying dollars than selling them.

But the general perception in the Western world's finance ministries remains that the downward correction in the dollar's value which began earlier this year has still some way to go.

How far and how fast, few are willing to predict, a caution that has been re-inforced by the latest signs of a rebound in the pace of U.S. economic growth.

Measured from its peak of DM3.45 in February the dollar has fallen some 15 per cent this year. Against sterling, which has reaped the benefit of the highest interest rates in the industrialised world, the decline has been double that.

Most monetary officials, however, regard the peak as an aberration and think in terms of a dollar devaluation of closer to 10 per cent so far this year.

The orderly progress of that retreat—notwithstanding some hair-raising daily movements—has eased but not dispelled fears of an uncontrolled slide in the U.S. currency's value.

The depreciation has run in parallel with a sharp fall in short-term interest rates in the U.S.—from 12 to 8 per cent in just over a year—as the Federal Reserve has loosened monetary policy to prevent the economic slowdown turning into a recession.

The interest rate differentials which fuelled the dollar's rise have also narrowed sharply, particularly against the yen and D-mark.

European governments have been able to take advantage of the deflationary impact of a weaker dollar to edge down their interest rates, and many central banks have replenished their foreign exchange reserves.

There has been a widespread expectation that a reversal in the U.S. currency's fortunes would trigger a general realignment of the European Monetary System as the D-mark attracted more of the funds leaving the dollar weaker than European currencies.

But because a significant proportion of those funds have been attracted by the high real interest rates on sterling assets, the impact on the EMS has been muted. The devaluation of the Italian lira in July was a reflection of the domestic weaknesses of the Italian economy rather than of external events.

If the dollar's fall so far has been orderly, the twin imbalances in the U.S. economy threatening to de-stabilise currency markets—the budget and trade deficits—remain.

On the other side of the coin, West Germany is beginning to join Japan in running a huge current account surplus, both mirroring the U.S. deficit.

The Paris-based Organisation for Economic Co-operation and Development (OECD) warns in its latest report that a large cut in the budget deficit is essential to prevent these imbalances in the world economy from reaching "unmanageable proportions."

The "ideal" scenario is of a reduction in the deficit allowing still-lower U.S. interest rates, which in turn trigger a gradual decline in the dollar's value and a parallel fall in the current account deficit.

The measures agreed by Congress last month to cut the budget deficit, however, are widely viewed as little more than cosmetic and as unlikely to push it much below $200m a year.

Dr David Stockman, who resigned in the summer as director of the White House budget office, believes that the window of opportunity to cut the deficit which opened with President Reagan's re-election may now have closed.

Despite some narrowing of the trade gap in August, the dollar's fall so far is not expected to make more than a *slight impact on* the dramatic deterioration in competitiveness of American industry over the past few years.

The almost universal conviction that the dollar will depreciate over the medium term is based on the view that at some stage the world's financial markets will appreciate that the U.S. foreign debt position is unsustainable.

On current trends the U.S., which became a net debtor last year, would owe around $1,000bn by the early 1990s and face debt-servicing costs equal to its present current account deficit. Manufacturing and service industries in the traded goods sectors would be decimated.

European central bankers believe that prospects—now only four or five years away—is gradually seeping into the consciousness of foreign exchange markets, and must eventually weaken the appetite of overseas investors for dollar assets.

Their concern is that the adjustment process could be either too slow or too rapid.

Japan, which exports around $50bn of capital a year, has shown little inclination to forsake the high real returns on dollar investments. The recent forays by Japanese investors into the UK and West German bond markets are insignificant in realtion to the continuing flow of funds into the U.S.

But if those capital flows do sustain the dollar at close to its present levels, the danger is that the current tide of protectionism in the U.S. will become irresistible.

The scores of bills before Congress in favour of protectionist measures have so far been resisted by the U.S. Administration, but there are growing signs that their supporters could become powerful enough to override a Presidental veto.

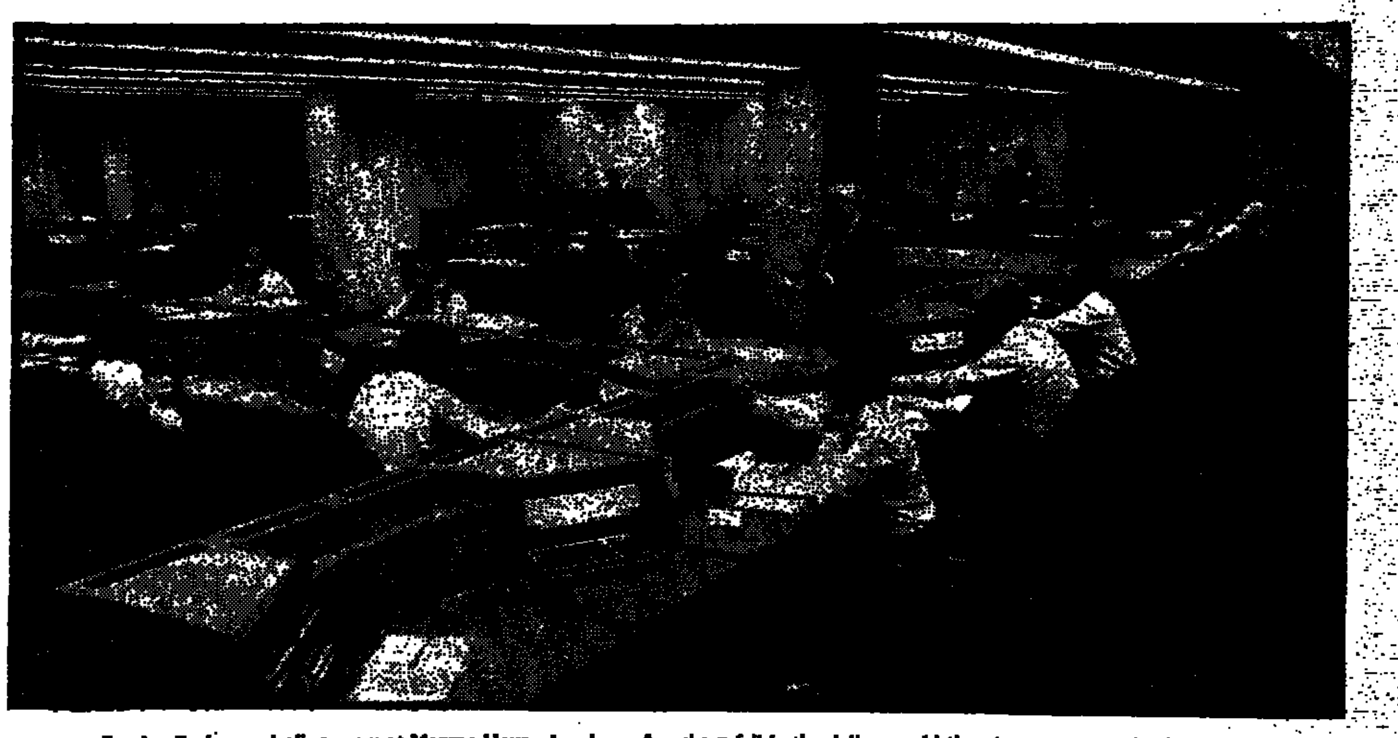
Equally worrying and potentially as damaging to the world economy, however, would be if the dollar fell too rapidly, threatening an upsurge in inflation in the U.S.

The almost certain reaction from the Federal Reserve to an uncontrolled slide in the dollar's velue would be immediate action to push up interest rates, a move which could drive the U.S. into recession and the rest of the world with it.

Either scenario is plausible, as is the possibility that the trouble-free decline seen so far this year continues with sporadic upturns in the U.S. currency's fortunes.

Some inveterate "dollar bulls," contrasting the dynamism of the U.S. economy with the still-sluggish performance of European countries, are still not convinced that the dollar could not recover its previous heights.

That view, perhaps attractive over the short-term if the momentum of U.S. growth picks up, is one with fewer and fewer adherents. Most are still arguing whether it will be a hard or a soft landing.



Foreign Exchange dealing room at Morgan House, London. A sharp fall in the dollar would threaten an upsurge in U.S. inflation.

A dynamism unrelated to trade flows

International capital markets

PHILIP STEPHENS

IT USED to be the conventional wisdom that exchange rates were driven by developments in the "real" economy — by relative costs, inflation rates and trade positions.

The likely trend of a currency over time could be measured by its purchasing power parity, the exchange rate needed to equalise prices in tradeable goods between different economies.

Capital flows, usually restricted and distorted by exchange controls, were regarded as the passive reflection of that real world. Many economists rated them merely as an accounting identity in balance-of-payment statistics.

But the end of fixed exchange rates and, perhaps more crucially, the subsequent liberalisation of financial markets and dismantling of exchange controls in most of the world's major economies have changed the rules.

The integration of financial markets through sophisticated technology and the explosive growth of new instruments such as futures and options has given the movement of capital a dynamism unrelated to underlying trade flows.

The process can be seen clearly in the $100bn-a-year international bond market where borrowers and investors can operate in a host of currencies regardless of frontiers.

At the same time, the foreign exchange markets have become divorced from the trade flows which used to determine supply and demand for different currencies.

Less than 5 per cent, perhaps only one or two per cent, of the tens of billions of dollars traded on the currency markets each day mirror an equivalent transaction in goods or services.

Many investors have come to regard currencies not as a medium of exchange but as commodities whose worth depends on the expectation of its resale value rather than any underlying economic trend.

The process has been accelerated by the coincidence of deregulation and liberalisation with the dramatic rise in the U.S. budget deficit.

The flood of capital into U.S. bonds has transformed America's financial position from one of net creditor to one of the world's biggest debtors. The development has been mirrored by a surge in capital exports from Japan to $50bn a year.

The rise in the U.S. current account deficit to about $100bn a year has run in parallel with a surge in the value of the dollar to perhaps 30 or 40 per cent above its purchasing power parity.

At the same time the flood of capital from Japan has kept the yen relatively depressed, despite the country's huge trade and current account surpluses.

That has convinced many economists that it is the capital rather than the current account of the U.S. balance of payments that determines the value of the dollar.

The argument has been neatly summarised by Henry C. Wallich of the U.S. Federal Reserve.

In an analysis of the U.S. current account deficit in 1984, he says that about one-quarter can be attributed to the faster growth of the U.S. economy than the rest of the world.

A further 10 to 15 per cent may be a response to the fall in U.S. exports to heavily-indebted nations, especially Mexico. The rest, at least a half of the current account deficit, is attributable to the strength of the dollar.

Had the dollar not risen there would still have been a substantial current account deficit, and this deficit would have had to be financed by capital inflows.

"But the rise in the dollar indicates that the deficit was over-financed. In other words, the rest of the world's demand for dollars exceeded basic U.S. current-account requirements," Mr Wallich says.

That excess of demand over supply of dollars in turn further increased the current account deficit.

The argument is one that appeals in particular to Japanese investors in the U.S. currency, whose appetite for dollar assets has been only slightly tempered by its recent decline and who are expected to invest some $80bn in dollar bonds this year.

The huge flow of capital from Japan reflects the historically high level of savings in that country—typically about 20 per cent of income—and the relatively low level of returns in the domestic market.

Many Japanese economists believe that most of this surplus will continue to flow to the U.S. as long as American inflation remains under control, basically because there is nowhere else for it to go.

That in turn should keep the dollar strong and the yen relatively weak, perpetuating the imbalance between the two economies. Capital flows, as Mr Wallich says, are the tail that wags the dog.

The quickest and most effective way to cut the Japanese trade surplus could therefore be to place restrictions on this outflow of capital rather than to boost imports of goods and services.

It is a seductive argument, the more so because it appears to mirror what has actually happened over the past few years.

But the assumption that because investors have decided to ignore fundamental economic developments so far they are likely to continue to do so is far less robust.

If the dollar's strength has been built on the fragile edifice of demand for the currency as an asset, the danger is that developments in the real economy will eventually erode the confidence essential to sustain that demand.

Signs of a change in price pattern

Commodities

JOHN EDWARDS

COMMODITY producers would view any downturn in the world economy with great alarm. They are already in a beleagured state, with prices generally depressed right across the board. So any further reduction in demand would be nothing short of disastrous, especially for developing countries desperate for foreign exchange and struggling to pay off huge debts.

The problem is that raw material producers hardly seemed to benefit from the upturn in the Western world economies in the way that would have been expected in the past. One of two commodity markets enjoyed a brief boom — aluminium, coffee and zinc spring to mind—but these were the result of special circumstances and they have subsequently slumped back down again.

Traditionally commodity prices have followed a boom and bust pattern, usually lagging behind the changing fortunes of the world economy (and the stock markets) by some six months. But the widely anticipated explosion in commodity prices failed to materialise after the end of the last recession.

There is, therefore, considerable apprehension among commodity producers that the whole pattern may have changed to the extent that they will miss out on the booms while still suffering the busts. Stability is one thing, but remaining in a state of permanent depression is an alarming prospect.

An ominous sign that the whole traditional pattern may have changed is that, unusually, virtually all the raw material markets are depressed at the same time. Historically if the base metals, for example, were suffering from low prices then the precious metals or agricultural products were riding high.

Although the weather has been unusually kind in recent years, with no major crop setback in the main producing areas, there is a strong case for arguing that a common cause, or causes, is affecting all the commodity markets. It seems outside influences are overriding the historical commodity market forces.

Perhaps the most obvious of these is the oil "shock" delivered by the Organisation of Oil Exporting Countries (Opec) in 1973. The soaring cost of energy not only hit commodity producers hard, it also concentrated the minds of consumers on cutting back on all their raw material costs. The initial success of Opec in pushing up oil prices triggered fears that producers of other raw materials might be tempted to try and set up similar cartels.

Consumer countries suddenly became very sympathetic to the idea of trying to stabilise commodity prices through international agreements between both importing and exporting countries.

A powerful boost was given to the integrated programme, devised by the United Nations Conference on Trade and Development (Unctad), which aimed to use commodity pacts, and a common buffer stock fund, to regulate the world market prices of 18 key commodities.

All that enthusiasm has now faded, following the recession in the industrialised world and the increasing inability of Opec to maintain control over the oil market.

Opec is, after all, potentially the most powerful and effective cartel with the leading producers of a diminishing resource, having many common links and objectives. So the fear over other producer cartels developing has largely evaporated. If the most powerful cartel fails to succeed then there is even less chance for other, weaker, cartels to make headway.

Far from strengthening efforts by raw material producers to create a new economic order by stabilising or raising commodity prices, Opec has had the opposite effect. It has demonstrated that producer cartels are not really viable, and at the same time hastened the shifts in the traditional supply-demand pattern.

New technology has also played its part. It has helped boost production of raw materials: the "green revolution," for example has sharply increased yields of grain and rice, and new mining techniques have opened the way for exploitation of previously uneconomic mineral deposits.

However, on the consumption side, technological developments appear to have concentrated on reducing the quantities of raw materials used and building in more flexibility for substitution (often by man-made competitors) and replacement.

The "miniaturisation" of many products, ranging from radios to computers, has reduced the volume of metals used, while at the same time inroads continue to be made by substitute materials, like plastics and fibre optics.

As a result, the annual growth rates in demand for most metals have been severely scaled down and prospects look far from promising. Gone are the days when fears of supply shortages drove metal prices up.

Consumers have learned to adapt to using different materials far more quickly as techniques for substitution, replacement or redesign have greatly improved. This also applies to a lesser extent with agricultural products.

Manufacturers have learned to switch their raw material ingredients in accordance with market changes. In the industrialised world in particular, demand for many traditional food products has either reached near saturation point or faces strong competition from "health" products, often based on synthetic materials. Sugar is an obvious case in point.

Meanwhile, the expected growth in demand for commodities from the developing world in line with growing populations and the drive for improved standards of living, has failed to live up to expectations.

The world recession, and the mountain of debts built up by developing countries, has meant that they have simply not been able to afford to step up imports; indeed many countries have been forced either to cut back or concentrate on increasing domestic production.

As a result most world commodity markets, instead of having to grapple with the spectre of shortages as previously feared, are now having to try and cope with an overabundance of supplies, which are proving difficult or impossible to divert to the areas in most need.

The transformation of the European Community from a net importer of many agricultural products to an increasingly big net exporter—dumping surpluses on world markets at heavily subsidised prices — has added to the general difficulties plaguing commodity producers. So has the increased protectionism by many countries erecting trade barriers to protect their own domestic industries.

However, perhaps the most disruptive influence of all has been the wild fluctuations in the value of currencies resulting from the collapse of the Bretton Woods Agreement.

International commodity trading is now virtually all based on the U.S. dollar, so havoc has been created by the constant changes in the value of the dollar against other currencies.

Attempts to impose a world price for particular raw material have been totally undermined, and so has the traditional supply-demand reaction to price movements.

In theory a rise in prices as a result of scarcity of supplies should stimulate production and discourage consumption thus restoring the supply-demand equilibrium, the reverse is supposed to happen in the event of a shortage.

However, currency movements have disrupted this whole mechanism. When the value of the dollar was rising, for example, a decline in the dollar price of raw material did not necessarily mean that it had fallen in terms of "weak" currencies where consumers might indeed end up paying more rather than less in local currency terms.

So demand is discouraged at a time when the world market price is falling. At the same time, producers in countries with weak currencies are also encouraged to step up rather than reduce output. In other words, movements in the currency markets are tending to override the impact of the fluctuations in the price and create a general air of uncertainty about the future.

Commodity producers and consumers no longer have to take a view about the supply prospects for a particular raw material but more importantly they also have to look at prospects in the currency markets.

In addition, the unpredictable behaviors of speculators in the futures markets has to be taken into account. The rise in inflation in the industrialised world during the 1970s attracted a surge of interest from the investment community into raw materials, with a basic intrinsic value.

As a result speculators, with no direct connection with the raw material markets were playing a major part in influencing price trends, often with no relevance to supply-demand fundamentals.

A lot of that investment interest has now moved from commodities into other areas, with more action, notably financial futures. Nevertheless, speculators, especially the big managed funds, still play an important part in influencing commodity price trends on the futures markets, which in turn affects the physical markets by raising or lowering expectations.

The outlook for the commodity markets has, therefore, become inextricably linked with developments in the financial community. It can be agued that since the commodity producers failed to benefit from the upturn in the economies of the main industrialised countries, they are not likely to suffer as badly from any downturn.

Certainly the metal markets are in a fairly strong fundamental position, since the depressed prices in spite of increased demand has persuaded producers to cut back rather than increase output and surplus stocks have declined sharply as a result.

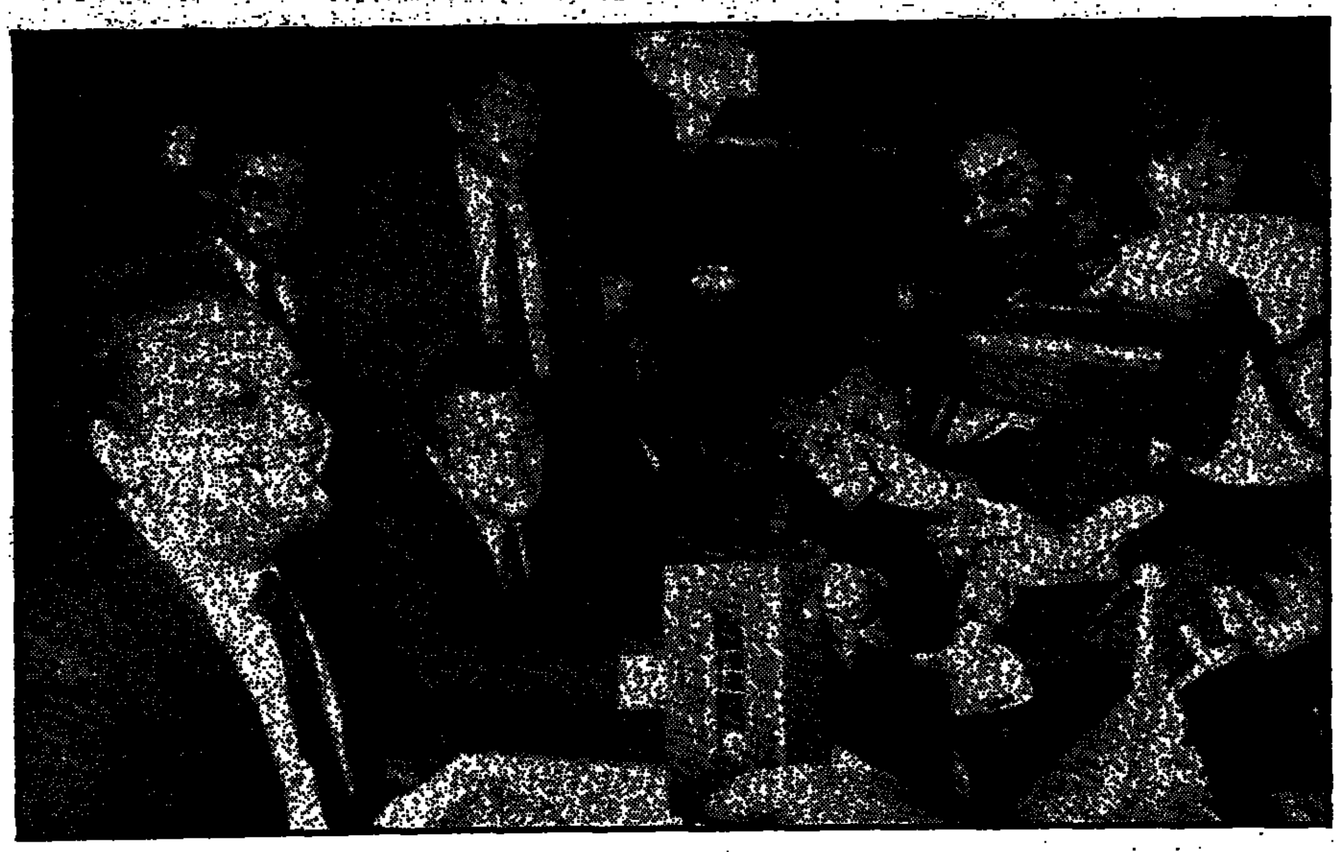
With agricultural products, the spell of good weather in most of the many producing areas cannot be expected to last for ever. By the law of averages some major crop setbacks are overdue and could help cut some of the burdensome surpluses that have already destroyed the livelihood of many producers, notably those in North America, who are the main sufferers from low dollar prices.

Nevertheless as producers have found out to their cost increasingly in recent years, the price of a commodity is essentially based on what someone is prepared to pay for it, not on what it costs to produce.

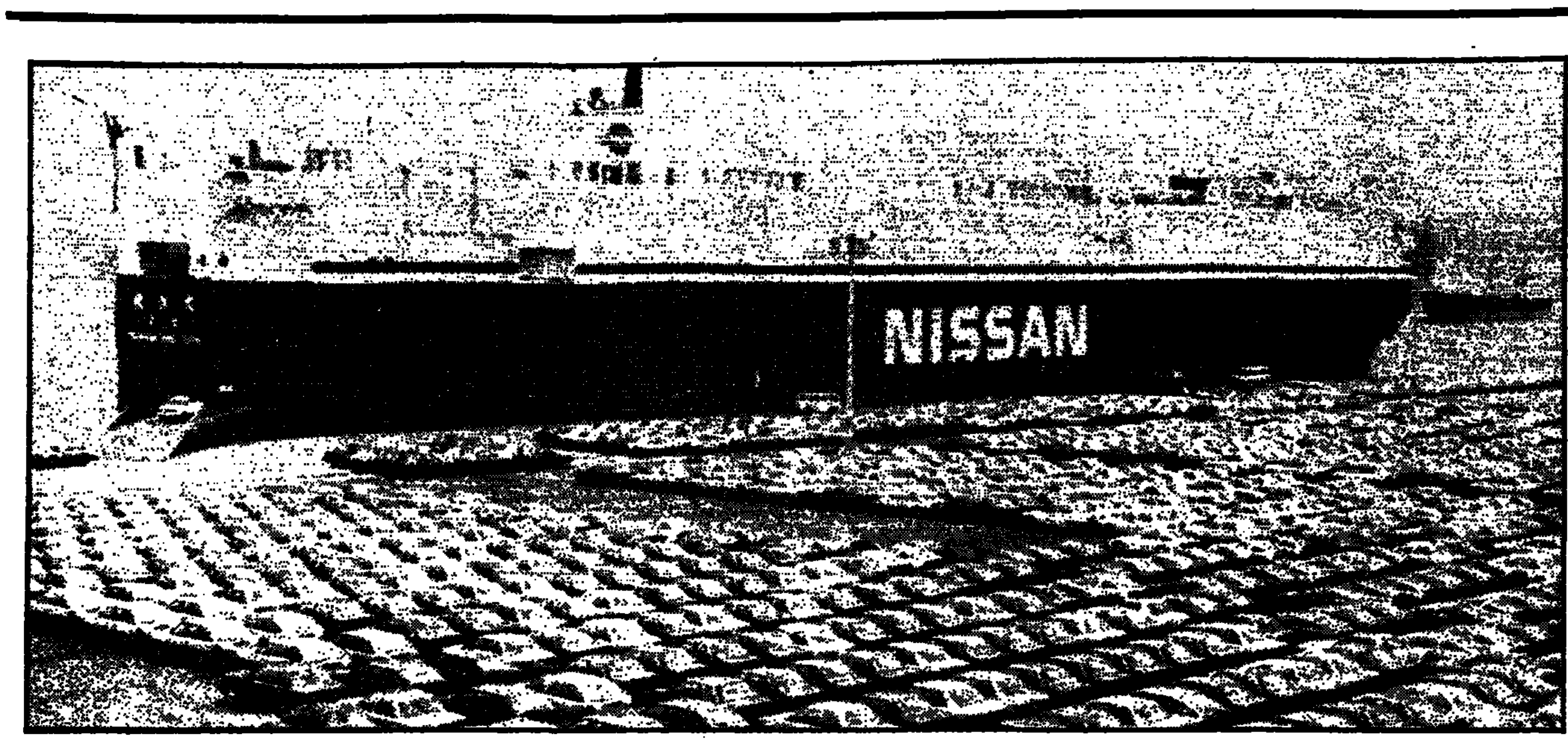
If demand is reduced again by another recession, it would therefore have a traumatic impact on the commodity markets.

> There is considerable apprehension among commodity producers that they will miss out on the booms while still suffering the busts

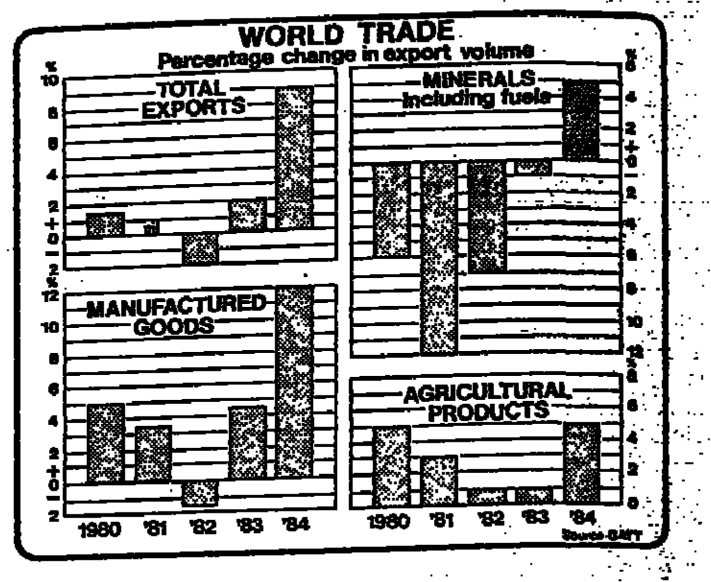
The London Coffee Market (above) and British Aluminium Company's plant in Scotland (below). The markets in coffee, aluminium and zinc enjoyed a brief boom but have subsequently slumped back. Any further reduction in demand would be nothing short of disastrous for the world's commodity producers, especially for developing countries desperate for foreign exchange to pay off huge debts



Ahmed Zaki Yamani, Saudi Arabia's Minister of Petroleum (left), at last year's Opec Conference in Geneva. Commodity market enthusiasm has faded, following the recession in the industrialised world and the increasing inability of Opec to maintain control over the oil market



Nissan cars being loaded at Yokohama for export to the U.S. The reverse side of the U.S. trade deficit is Japan's $40bn trade surplus with the U.S.



World's biggest trading countries in 1984

	Exports (fob)		Imports (cif)	
	$bn	%	$bn	%
World	1,915	100.0	2,006	100.0
U.S.	210	11.0	338	16.5
West Germany	171	8.9	152	7.6
Japan	170	8.9	134	6.7
UK	94	4.9	105	5.2
France	93	4.9	104	5.2
USSR	91	4.8	80†	4.0
Canada	85	4.4	76	3.8
Italy	73	3.8	82	4.1
Netherlands	66	3.4	62	3.1
Belgium Luxembourg	51	2.7	55	2.7
Total of 10 biggest	1,106	57.7	1,189	59.4

† Fob.

Source: Gatt.

Much to be done in revitalising system

Trade talks

WILLIAM DULLFORCE

THE CLAMOUR from U.S. congressmen urging President Ronald Reagan to protect U.S. industry against burgeoning imports has dramatically sharpened thinking in other trading nations this year.

The threat of a trade war, if the world's largest trading country turned to protectionism, has made it almost certain that a new round of international trade negotiations will be held in 1986, in the hope of revitalising the free trade system.

Much work remains to be done if that hope is to be realised. Opinions about purpose, priorities and substance still diverge widely among the U.S. and Japan, the new round's main champions, the more sceptical Europeans and debt-ridden developing countries.

The U.S. insistence that trade in services must be dealt with in the talks has been tenaciously resisted by a hard core of developing countries, led by Brazil and India.

At the seven-nation economic summit in Bonn in June, France refused to countenance the announcement of a date for the start of a new round of talks without a parallel effort being made to reform the world monetary system.

France has since come into line with the other members of the European Economic Community, which is backing the U.S. and Japanese drive for an early start to the talks. But developing countries still argue that trade talks which ignore their debt and exchange problems are not likely to serve their primary interests.

Initial motive

The initial motive for holding new multilateral trade negotiations was the perception after the so-called Tokyo round, which lasted from 1973 to 1979 and did secure further tariff cuts, that the trading system embodied in the General Agreement on Tariffs and Trade (Gatt) was being progressively undermined by non-tariff protectionist measures, such as national subsidies, import restraint arrangements and free trade agreements restricted to two or a few countries.

The most notorious and longstanding has been the Multifibre Arrangement (MFA) which for the past 12 years has allowed industrialised countries to operate quotas for imports of textiles and clothing from low-cost producers: It is almost certain to be renewed when it expires next year.

Essentially, the "most-favoured nation" (MFN) principle, the keystone of the Gatt, has no longer been functioning properly. The MFN requires that trade advantages or restrictions applied by a Gatt member to any one country should be tended to all others.

A symptom of the malaise was the decline in the total value of world exports in 1981-83, an almost unbroken 30-year period of expansion. World trade rebounded with 9 per cent growth last year but this was largely due to the strength of the dollar and the surge of imports into the U.S. This has now become the focus of the agitation for protectionist measures in the U.S. Congress.

Moreover, the Gatt secretariat will submit to the annual meeting of the International Monetary Fund (IMF) this year figures showing that the rate of growth in world trade slumped to 3 per cent in the first half of the current 12 months—a lower estimate than that recently announced by the Organisation for Economic Co-operation and Development (OECD).

The U.S. trade deficit, which is expected to reach $140bn or more this year, now dominates the world trade picture. The spectre of the Smoot-Hawley Trade Act, passed by the U.S. Congress in 1930, and seen in retrospect as a contributing cause to the subsequent world depression, has accelerated progress towards a new round of trade talks.

Legislation

More than 200 pieces of legislation, seeking to impose tariffs or quotas, were awaiting the attention of U.S. congressmen when they returned from their summer vacation. Among them are the Jenkins Bill, which would severely curb U.S. imports of textiles and clothing, and a Democrat proposal to slap a 25 per cent surcharge on imports above a given level from Japan, Taiwan, South Korea and Brazil.

President Reagan last month refused to sanction the quotas on shoe imports recommended by the U.S. International Trade Commission and he has regularly warned that he will veto protectionistic steps by Congress.

But U.S. officials have lobbied energetically this year among Gatt's 90 members for a quick start to trade talks, in order to help the Administration palliate protectionist sentiment at home.

The reverse side of the U.S. trade deficit is Japan's $40bn trade surplus with the U.S. Enmeshed with trade in the economic relationships between the two countries are the large gap between the low interest rates on Japanese bonds and high U.S. interest rates, the far greater savings propensity of the Japanese and the subsequent capital flow to the U.S. which helps to depress the yen and keep the dollar strong.

At the very heart of the matter is the enormous U.S. budget deficit and resulting borrowing requirement. The argument that a swifter rundown of the deficit by domestic fiscal action would alleviate both world monetary and trade difficulties is shared by developed and developing countries.

It has also become increasingly evident this year that, if world trade tension is to be eased, the Japanese have to open their markets wider to foreign goods and services. The "import action programme" announced by Mr Yasuhiro Nakasone, the Japanese Prime Minister, in July has not had time to take effect and has been greeted with some scepticism by Japan's main trading partners.

Japanese-bashing has become a stock reaction to trade problems in both the U.S. and Europe. It is not surprising, therefore, that Japan has worked had to hustle Gatt towards the start of a new round.

Unusual step

Both Japan and the EEC lined up behind the U.S. when in July it took the unusual step of asking for a special session of the Gatt contracting parties to decide on preparations for the talks. The U.S. acted to break the deadlock in the Gatt council caused by Brazilian and Indian opposition to the inclusion of trade in services as a subject for negotiation.

The session will open in Geneva on September 30. Its most awkward task will be to find a way of handling the services issue. Most likely some form of twin-track solution, allowing trade in goods and services to be treated in separate and parallel negotiations, will emerge.

The fundamental argument for bringing services within the scope of Gatt is that, if the industrialised countries are to open up more to imports of manufactures from the developing countries, they must be able to offset the impact on employment in their own manufacturing industries by expanding business in services abroad. Protectionist barriers to services must be lowered.

The developing countries fear encroachment on their sovereignty if they open up to big banks, insurance companies and other purveyors of services. They also object to trading off concessions on services in return for access for their exports, as long as earlier commitments to them on the opening up of markets to their goods have not been fulfilled.

It is generally agreed that an extension of free trade rules in goods is needed to get Gatt functioning efficiently, but the developing countries give priority to completing the work programme agreed by trade ministers in November 1982.

Delicate issue

This includes the delicate issue of trade in agricultural products, on which many Gatt members have reservations, notably the EEC, which has already taken a hands-off position over its common agricultural policy.

Gatt "safeguards" provisions, which allow countries to impose temporary trade restrictions on imports harming domestic industries, need to be tightened. Its dilatory procedure for resolving disputes has to be revised.

And a logical first step for any new negotiating round would be to roll back recent restrictions on free trade, such as the voluntary export restraints agreed for Japanese exports of cars and video cassettes, and various "orderly marketing arrangements" all of which conflict with Gatt principles.

Powerful vehicle for co-operation

Bank for International Settlements

PETER MONTAGNON

OF ALL the international financial institutions the Bank for International Settlements remains about the most aloof and secretive.

Tucked away from public gaze in the Swiss town of Basle it is different from other bodies such as the International Monetary Fund in one important respect. Unlike them it does not depend on government funds. It finances its operations itself through the profits it makes conducting banking transactions for its member central banks.

As an institution it is thus spared the harrowing process of public scrutiny its sister organisations must undergo each time they ask their member governments for extra capital.

This has given it the unique advantage of being largely above politics as well as being a powerful vehicle of international co-operation at times of crisis on world financial markets.

In the early days of the developing country debt crisis, for example, the BIS furnished billions of dollars of emergency credit to countries in trouble such as Mexico, Brazil and Argentina. There is no doubt that the credits helped maintain confidence in an otherwise very shaky world financial system. But they also drew the harsh glare of publicity on to the bank and it has now retreated to its more traditional but nonetheless influential activities.

First and foremost of these is the intangible but key role played by the BIS in international co-operation among central banks.

Each month (except during the summer holidays in August and the International Monetary Fund meeting in October) the Governors of the world's main central banks converge on Basle for a round of informal discussions.

The talks always take place in strict privacy and are without agenda. But, duplicated as they are with committees of specialist officials at less senior levels, they allow central banks to keep a close watch on what is happening financially around the world.

As a result they may be able to act in concert to forestall trouble before it arises.

For example, the BIS is now at the centre of discussions over the need for additional controls on off-balance sheet business entered into by commercial banks. Such business is growing extremely popular as the euromarkets become more and more involved with underwriting securities issues and less interested in straightforward commercial lending.

But there may be a risk to the *financial* system *if* underwriters were ever called upon to fulfill their obligations. Just what the risks are is now being examined by a special BIS committee, which will in due course recommend steps that banks should take to protect themselves with extra capital.

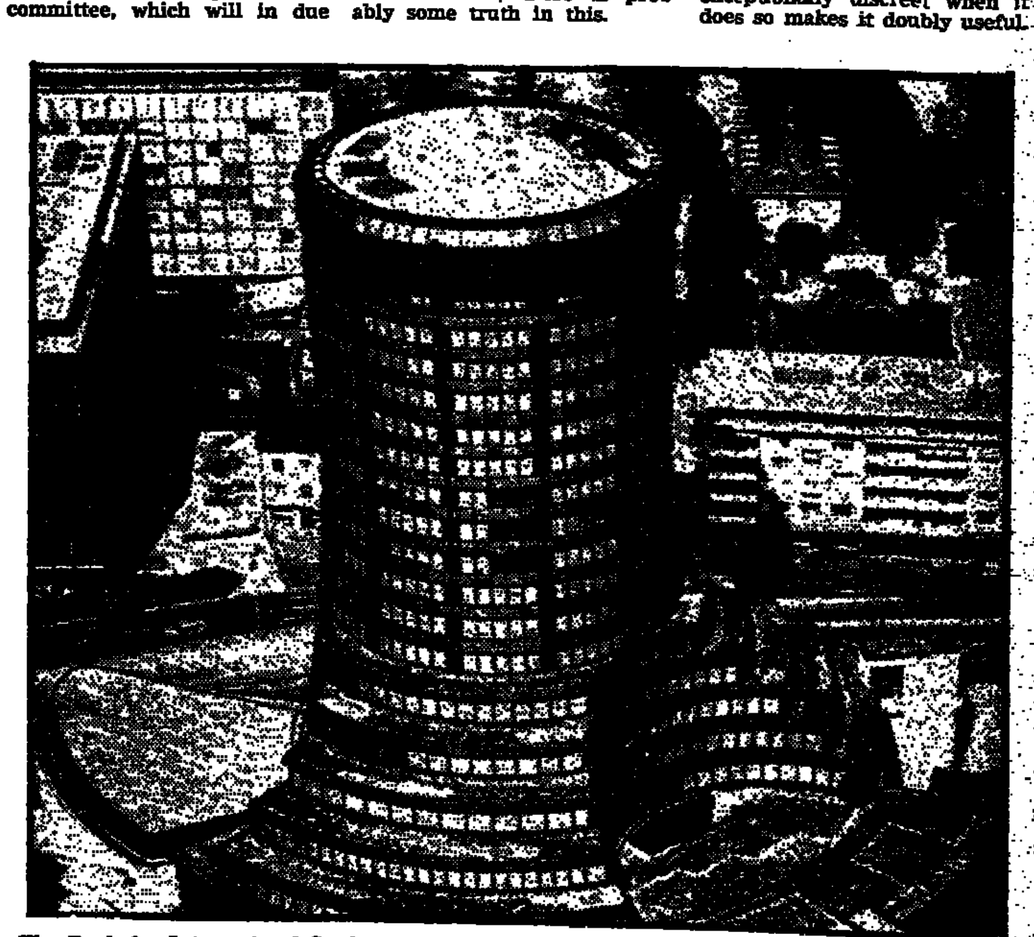
Backing up this sphere of the BIS activity is its prestigious research department which is also responsible for producing the bank's annual report. Published each June the report is essentially a central banker's prescription for economic policy in the industrialised world.

Over recent years it has been particularly critical of U.S. fiscal policy and urged that the country's budget deficit should be reduced, often in unusually outspoken terms.

In the U.S. this has given the BIS the reputation of being a particularly European institution representing European views of the world. Given its location and its origin, in 1930 primarily as a vehicle for co-operation among European central banks, there is probably some truth in this.

Indeed, without being a European Community institution, the BIS has lent its technical support to the European Monetary System by acting as agent for the settlement of Ecu (European Currency Unit) transactions between member central banks. It is also expected to adopt a similar role by becoming the central clearing house for Ecu transactions conducted by commercial banks in the private market.

It is as a bank, however, that the BIS operates from day to day. Just like private citizens, central banks need a bank to hold their deposits or even sometimes to lend them money. The BIS can also act in financial markets on behalf of member central banks, for example by intervening in the foreign exchange market. That it is exceptionally discreet when it does so makes it doubly useful.



The Bank for International Settlements in Basle finances its operations through the profits it makes conducting banking transactions for its member central banks

No time to rest on laurels

International Monetary Fund

MAX WILKINSON

AS THE International Monetary Fund prepares for its annual conference in Seoul, Korea, next month, its prestige (at least among the richer nations) is at its highest for many years.

The seven-power economic summit in Bonn in May passed, in effect, a resounding vote of confidence in the Fund and later in Tokyo in June the Group of Ten finance ministers and central bank governors of the industrial nations reaffirmed the Fund's central role in trying to promote the smooth workings of the international monetary system.

In particular, they sought to strengthen its influence in the "surveillance" of member countries' policies with the aim of securing better "convergence" of policies and smoothing out some of the wilder fluctuations in the foreign exchange markets.

This may be seen as a general endorsement by the major nations of the Fund's extremely tough general economic approach in recent years, particularly its insistence on financial discipline and the need to reduce budget deficits.

At the same time, the Fund has earned the approval and thanks of the creditor nations for its firm handling of the Latin American debt problems, and its adroitness in helping to prevent the commercial banks from being caught by a debtor's cartel.

Nevertheless, the Fund's managing director, Mr Jacques de Larosiere and his staff, can scarcely feel a sense of complacency as they look at the continuing problems of the debtor nations, and the anxieties arising from the U.S.'s failure to get its budget deficit under control.

Moreover, it is not at all obvious what the G10's desire that the IMF should have a more effective "surveillance" role could mean in practice.

The Fund has been preaching the need to control deficits for a long time now, and recently it has published explicit and increasingly urgent warnings about the problems which the U.S. is storing up for itself and the world.

This summer, Mr de Larosiere delivered an extremely blunt warning that quick and decisive action was essential if the economies of the industrial world are to grow rapidly enough to sustain the recent improvement in the finances of the developing countries.

He pointed out that the U.S. could not continue indefinitely to rely on inward capital flows of around $100bn a year, and he repeated the warnings about the growth of protectionism.

All this is familiar stuff, but while the rhetoric is stuck in a groove, the problem is becoming more urgent, as the pace of the U.S. economy slows and political pressures threaten the delicate edifice of debt reschedulings and economic reform in some of the major debtor countries.

In the Philippines, for example, the prime minister, Mr Cesar Virata, warned this month that the very tight budget deficit which the IMF insisted on had brought the economy to a standstill. As a result he wants to re-negotiate his agreement with the Fund, and this is putting in question the $10bn rescue package agreed with foreign banks to help the country service its $25bn foreign debt.

In Brazil, there has been widespread anxiety about whether the resignations of Sr *Francisco* Dornelles as finance minister and Sr Antonio Carlos Lemgruber as central bank governor would undermine the political will to reach further agreement with the Fund over the rescheduling of part of its $103bn foreign debt.

At the same time there are questions whether the commercial banks can be persuaded to agree to a rescheduling package for Mexico which assumes that the country will be able to resume some sort of normal borrowing on the markets, perhaps to the tune of $4bn by 1987.

In spite of the general improvement which debtor countries achieved last year as their exports expanded to take advantage of the booming U.S. markets, the problems of inflation and high public spending remain.

For the IMF an inflation rate of over 200 per cent in Brazil is a clear sign that its prescriptions of harsh fiscal discipline need to be applied as rigorously as ever. But there is increasing political pressure on the country's new government to keep up the pace of growth and raise living standards for the poorest.

Clearly, the disciplines, which the IMF found it hard enough to apply during a period of expansion will be much more burdensome if the world economy starts to slow down.

And this will doubtless cause the Third World's criticisms of the Fund to become increasingly strident with a renewal of those arguments which say that the Fund's approach is not only harsh but fundamentally mistaken.

These complaints were, indeed, set out with more than usual force in the communique of the Group of 24 (third world countries) at the IMF's interim committee meeting in Washington in April.

It said that the IMF places too much emphasis on economic reforms which require painful contraction of demand and sometimes of living standards, ignoring the possibilities of reform through accelerated growth.

The Fund has also been accused of partisanship on the side of creditor banks at the expense of the interests of the poorer debtor countries.

These accusations are sometimes dismissed as the posturing of politicians looking for someone else to blame for the results of their past prodigacy.

More soberly the IMF replies that the adjustments which would have been forced on debtor countries in the absence of a Fund programme would in most cases have been even harsher. The Fund claims its role has typically been to buy time and soften the impact of reforms which would have been needed anyway to bring countries back from chronic trade deficits to somewhere nearer balance.

Nevertheless, the traditional role of the Fund in bringing about short term adjustments is being very widely questioned in relation to the poorest countries, particularly in Africa.

Many of these countries have scarcely any hope of repaying their debts to the Fund during the remainder of this decade, unless they can borrow the money from other official sources.

The World Bank has calculated that the countries of sub-Saharan Africa will have to repay the Fund about $1bn a year in the period 1985-87, which means the continent is likely to pay back more to the Fund than it gets in new inflows.

It makes little sense for industrial countries or for the World Bank to lend money to help the starving people of Africa, if these countries merely pay it back to the IMF. Yet the IMF must have its money back.

This is not, as is sometimes suggested, because the IMF is "hard-hearted" in its approach. It simply reflects the constitution of the Fund as a provider of short term revolving credits to correct temporary imbalances in its members' external accounts. The IMF was never intended as a channel for aid, and its articles prevent it from rescheduling loans. In the case of a default, its 148 member governments have to stop lending to the defaulter, or as a last resort, expell it.

Nevertheless it has proved almost impossible in practice to make a hard distinction between aid and fund assistance in the case of some of the poorest countries.

More generally, it has been difficult to find a dividing line between the Fund's "emergency packages" of reforms with a three to five year time horizon and the longer term "structural adjustment" programmes which the World Bank has increasingly been putting together in many debtor countries in Latin America and elsewhere.

Fund programmes are *intended* to force a country back into equilibrium and make it live within its means. Then, it is argued, longer-term investment plans, designed to promote faster growth can begin to be effective.

In practice, *it has been* difficult to separate the two processes, partly because the economic reform and the management of external debt will take much longer than the typical time horizon of a Fund programme.

Because of internal political pressures, it is often only when a country is facing serious balance of payments difficulties, that it is prepared to agree to necessary reforms. This is the stick, which is combined with the carrot of the IMF financial assistance and its ability to persuade commercial banks to *reschedule* their *loans.* By contrast the World Bank's loans for structural adjustment have much more the character of "carrot," offering faster medium-term growth rates.

Since the onset of the debt *crisis* in 1982 there have been a number of proposals for closer integration between the Fund and the Bank, or even for a complete merger. In some ways, the Fund would have liked the Bank to take more *of a leading role* in managing the problems of external debt over the longer term.

However, the Fund staff have amassed so much expertise in the rescheduling operation of the last few years and in holding debtor countries' "feet to *the fire*" over economic reform, that there seems little prospect that it will be able to shuffle off this task in the foreseeable future.

As a result the major nations which control the institutions, have decisively rejected the idea of thorough-going institu*tional reform.*

Mr Jacques de Larosiere: He warns quick and decisive action is essential if the economies of the industrial world are to grow rapidly enough to sustain the recent improvement in the finances of developing countries.

Fierce debate on the size of role to be played

World Bank

STEWART FLEMING

AMID deepening concern about the *economic outlook* in several key developing country debtors as well as sub-Saharan Africa, the debate about whether the World Bank can and should play a bigger role in helping to resolve the debt crisis is *intensifying.*

Many of the most experienced officials who have been deeply involved in the debt issue, including Federal Reserve Board (Fed) chairman Mr Paul Volcker, have made it clear in public speeches that they have no doubt that a more *active World Bank would* make a measurable contribution to ameliorating some of the problems developing countries face.

The Bank's response to this line of argument has been that with its structural adjustment lending and other *new initiatives* it has been more effective than it is being given credit for.

But it maintains, too, that if *it is to be more* effective it will also need more money, for without added resources it will lack the leverage it will need to encourage borrowers to adopt the often painful policy *reforms* that are needed.

The debate about the *need to* increase the World Bank's capital promises to be one of the central topics on the agenda at the annual meetings of the Bank and the International Monetary Fund in Korea next month.

It remains unclear, however, whether much progress will be *made in* persuading the countries who will have to provide the bulk of the funds that an early decision to increase the Bank's resources is needed, even if in the longer term it is accepted that more capital, and *therefore a higher* and *growing* level of lending, is indeed necessary.

Circumstances, in particular a *slowdown* in its lending commitments in 1984, have severely weakened the Bank's case for a quick decision. Moreover, the arguments put forward by some *governments, notably* the United States, that even if the executive branch favoured such a move, the legislative branch of government, in the U.S. case the Congress, is casting a jaundiced eye on such foreign *aid, seems to* be *carrying* more and more weight.

The lack *of* progress in reducing the budget deficit in the U.S., the mounting anger in Congress and in the country about foreign imports which is creating an *introverted attitude* within the country, would both militate against congressional approval for additional funds for international lending institutions, even in an Administration which was prepared to champion the World Bank's cause.

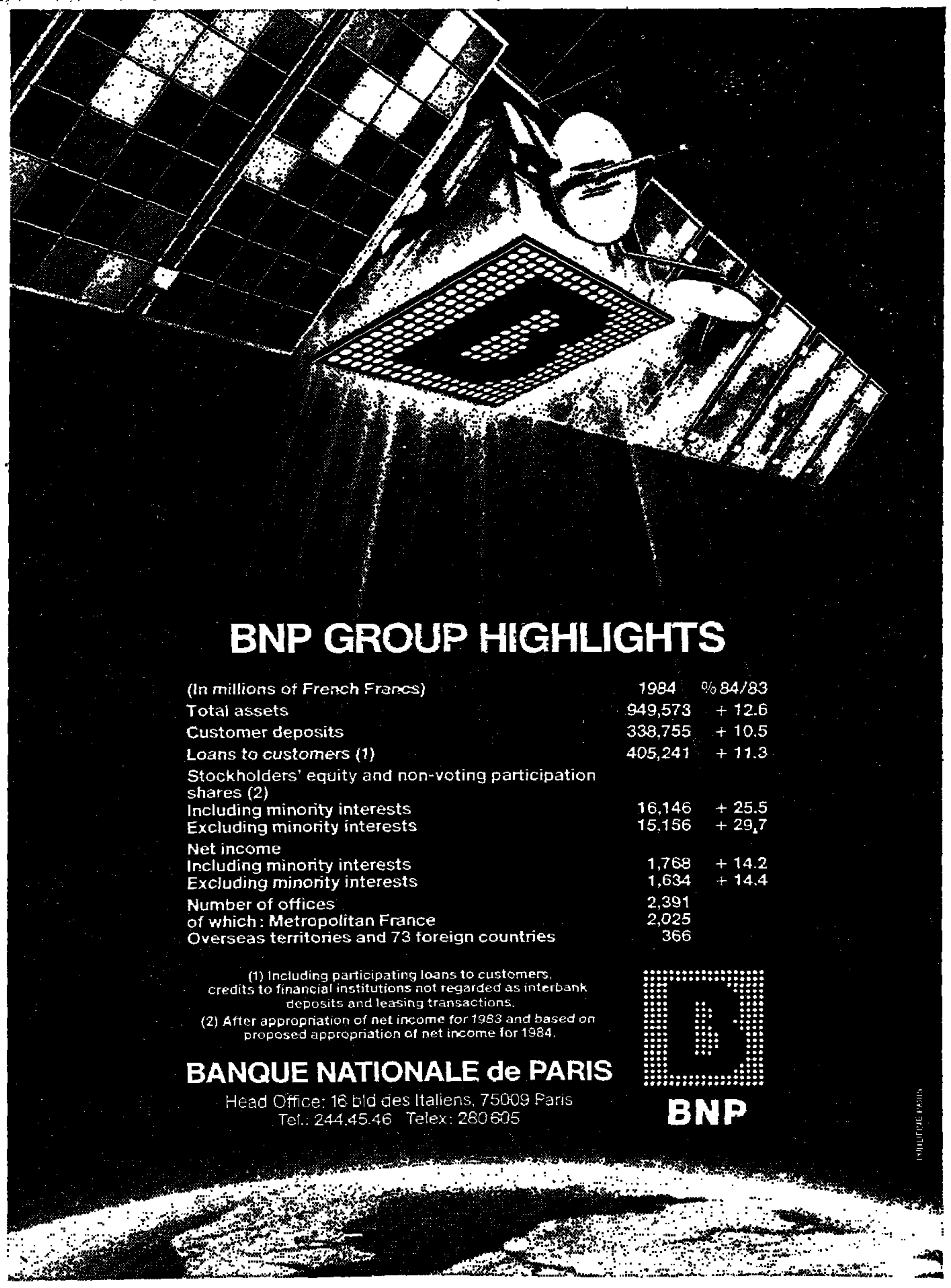
The Reagan Administration has done anything but that, preferring instead to follow a policy of putting pressure on such institutions to improve the efficiency of *their operations* and at the same time pressuring developing countries to adopt more efficient, market orientated, economic policies.

Should it come to a point where urgent action to bolster the third world is needed, as some fear, the political obstacles to a change in policy will be considerable.

In *these* circumstances the probability is high that the emphasis within the Bank will have to continue to be on economising in its use of capital, *something which will continue* to put pressure on the Bank to innovate.

That *pressure* is also being felt by the International Monetary Fund which is having to adjust to the idea that its loans, *which were once considered* to be primarily short term in nature, will have to be outstanding for a longer period.

As a result there is a greater overlapping in the roles which the Bank and the IMF play. How the changing relationship between the two institutions *should evolve is as importan*t an issue to the Bank as the question of when it will be given the go ahead to expand its capital base.



Remedies worse than the disease

By Samuel Brittan, Assistant Editor

THE EXPRESSION "twin deficits" is now generally understood to mean the U.S. Federal Budget deficit and the U.S. current balance of payments deficit.

There is, however, another pair of closely related imbalances: the U.S. current deficit and the Japanese current account surplus.

Strictly speaking we ought to include West Germany, as the other country with a substantial surplus, along with Japan. But Japan has the lion's share of the surpluses—nearly $40bn in 1985 according to estimates from the Organisation for Economic Co-operation and Development compared with just over $10bn for Germany. So it will be a convenient stylisation to refer to "Japan" as representative of all the surplus group.

The Japanese and German surpluses together are thus expected to reach some $50bn this year and are expected by the OECD to rise to about $70bn in 1986.

Even these large numbers are less than the U.S. current deficit, which is estimated by the OECD at $120bn this year and expected to rise to over $140bn in 1986. We know, however, that because of statistical errors and discrepancies, there is about $100bn of underrecording in the world balance of payments. In other words the total current balances of all countries sum to a deficit of that size, not to zero, as they would if the figures are right.

Mirror images

It is thus reasonable to suppose that the true U.S. current deficit is somewhat lower than the published estimates and the "Japanese" surplus somewhat higher. Thus it is after all plausible to regard the two imbalances as mirror images.

The stylised picture is not far removed from reality. The bilateral U.S.-Japan trade deficit is running at $50bn per annum and much of the Japanese capital outflow goes quite directly to the U.S.

What lies behind these surpluses and deficits? Something so obvious that it is often overlooked. A country has a current payments surplus if its domestic saving exceeds its domestic investment. It has a deficit if its domestic investment exceeds its domestic savings.

There is not much point in trying to show with masses of figures how the U.S. current deficit is equal to the shortfall of U.S. savings, below what is needed to finance domestic investment. For the two are equal by definition. Similarly with the Japanese current account surplus and the excess of Japanese savings over domestic investment.

Definitions cannot tell us about cause and effect. The balance of payments identity simply reminds us too look at the forces by which these magnitudes are brought into line.

The budget deficit

The savings - investment approach gives us an essential handle for examining the U.S. budget deficit. Looked at by itself we can argue for ever how seriously the $200bn per annum U.S. deficit should be taken. It excludes state and local governments, makes no distinction between current and capital expenditure, and is not corrected either for inflation or the business cycle.

Indeed, as recently as 1984, the OECD figures for the general government financial balance showed U.S. government borrowing not at all that much higher than Japan's as a proportion of the national product.

The important point about the U.S. budget deficit is not its size but that it is a source of negative savings in a country where the saving ratio is in any case fairly low.

The big rise in the U.S. budget deficit as a proportion of national product was between calendar years 1981 and 1982. From then until 1984, there was little further shift.

The domestic savings ratio also changed little over the period. There was, however, a big change in domestic investment which rose by three percentage points as a proportion of the national product between 1982 and 1984. Contrary to what Reaganites claim, this jump in investment was not unprecedented.

A similar rise took place in the Ford-Carter period between 1975 and 1978. But on that occasion there was a favourable turnround in the government financial balance amounting to four percentage points of GNP, thus avoiding the need for foreign borrowing.

What is the relation between this savings and investment approach to the balance of payments and the more usual one in terms of exchange rates? Basically, the real exchange rate of a country which becomes a net borrower must rise until a net current deficit is generated of the same size as the *capital* inflow.

In principle the changes involved in the move to current deficit can be due either to a push from the rest of the world or a pull from the U.S. The much larger rise in real interest rates in the 1980s in the U.S. than in surplus countries such as Japan and West Germany *is* among the reasons for supposing that the main casual factor has been a pull from the U.S., rather than a push from other countries.

Suggested cures

A savings and investment approach is a useful caution against expecting too much from many vaunted proposals for curbing the U.S. current deficit or reducing the Japanese surplus.

Consider for instance a "buy American campaign" in the U.S. or a really determined and successful campaign to open Japan to imports from the rest of the world.

We have to ask whether either of these developments would reduce Japanese savings relative to domestic investment or increase U.S. savings. It is not clear why there should be any such effect. In its absence neither the U.S. deficit nor the Japanese need change.

If a Japanese import drive alone is introduced, then the rise in Japanese imports will be offset by a rise in Japanese exports. So there would be the same pattern of U.S. and *Japanese current accounts* balances at a higher level of world trade.

If, on the other hand, "buy American" policies are introduced on their own, the opposite would happen. The balance would occur at lower levels of trade. If the two kinds of policies were introduced together, they would work against each other and it is impossible to say *a priori* what the net effect would be.

There is only one remotely plausible argument for a "buy domestic" campaign. This is that it might provide a Keynesian boost to real output and activity. Such a boost normally increases both domestic investment and domestic savings; and it is difficult to say which will be larger. The Keynesian case for a "buy domestic" campaign is not that the current balance of payments will improve, but that the existing balance might be obtained at a higher level of activity.

If the desire is mainly to stimulate economic activity, and this can be done without inflationary risk, why not do so through the conventional monetary route rather than by an import-saving drive? Some countries might fear that a conventional stimulus would depress the currency, which is hardly a relevant worry for a country which has had for so long an "overvalued" currency.

There is one kind of U.S. anti-import drive which would affect domestic saving, namely an import surcharge, designed to bring in substantial revenue and reduce the budget deficit.

This is far from saying that a surcharge would be a good idea. If successful it would narrow the payments gap entirely through reduced trade—in contrast to straightforward tax increases or expenditure reductions which might be expected to boost exports as well as cut imports.

Moreover, a surcharge is extremely unlikely to be across the board. Exceptions are likely not only for food and raw materials. There will be pressure to exempt the developing countries and countries with a special relationship with the U.S., such as Canada.

The net effect of the exemptions is likely to reduce the revenue aspects while retaining enough protectionist effect to provoke America's main trading partners.

A serious attempt to introduce such a surcharge would be playing with fire in the present highly delicate state of the world economy. Since the breakdown of Bretton Woods in 1971, and the world oil crisis of 1973, prophets of doom have been predicting a world trade war. A U.S. import surcharge could be the fuse which could at long last make these prophecies come true.

A dollar fall

The most difficult case to analyse in savings and interest terms is a fall in the dollar exchange rate. Elementary theory and common sense suggest that, other things being equal, a fall in the dollar should improve the U.S. current trade balance. But this same common sense should tell us that it will not do so unless U.S. savings *increase relative to U.S. investment.*

If the dollar's fall is due to an easing of monetary policy or reflects the impact of an *economic slowdown then short* nominal term interest rates at least would fall, and longterm rates would be unlikely, at least at first, to move in an opposite direction.

If, on the other hand, the dollar's fall stems from a loss of international confidence then long term interest rates might be expected to rise. Even then there is no guarantee that the interest rate — especially the domestically perceived real dollar rate of interest — will rise sufficiently to choke off investment, or promote savings enough, to be consistent with a major improvement in the U.S. current account.

What alternative or *supplementary way is there then of* resolving the contradictions between a dollar depreciation and an obstinate domestic savings and investment gap? There is an obvious reconciliation staring one in the face, once one realises it. This is simply a rise in the U.S. inflation rate, to offset the dollar's depreciation.

No black magic

In that case the dollar's depreciation will be more nominal than real, and there will be no reason why some quite large current account deficit should not continue.

There is no black magic here. It *is* by now almost common ground that the appreciation of the dollar contributed a great deal to the lowering of inflation in the U.S. in 1980-84. According to an estimate by Jeffrey D. Sachs* (which allows for the feed-through from a higher dollar into wages more fully than some other estimates) inflation, measured by the consumption deflator, would have been nearly 3 per cent higher —i.e., 6 per cent instead of 3.2 per cent—in 1984 without the dollar appreciation.

Just as the appreciating dollar took inflation below what would otherwise have been expected with prevailing demand management policies, so depreciation would give inflation a boost. According to Sachs, a 10 per cent per annum depreciation over three years would eventually raise the U.S. inflation rate by just over 2½ percentage points.

If this whole depreciation were crammed into a short period, the inflationary impact might be greater still. In the Stephen Marris "hard landing" scenario the inflation rate doubles to 7 per cent in 12 to *18 months.**

The real test of these hypotheses will come if the dollar should lurch from current levels towards the DM 2 to *DM 2.2* level which some studies suggest to be its true purchasing power equilibrium.

The previous fall in the dollar from March to early August of this year is much less likely to have marked inflationary effects. For this earlier fall was simply the pricking of a speculative bubble which had developed *around* the turn of *1984-85*, and which did not last long enough to become incorporated in U.S. price and wage behaviour or expectations.

But a fall which goes much further is likely to affect U.S. import prices, the prices of domestic products which compete with them and eventually wages and inflationary expectations (to the extent that these were not already present in, for instance, the term structure of interest rates).

Faced with an inflationary danger from a falling dollar the Fed would obviously consider reversing its 1985 relaxation and tighten monetary policy sharply. But there would be powerful arguments for the Fed avoiding this knee-jerk response.

Strong contractionary action by the Fed would indeed temporarily reduce the current trade deficit by the expedient of producing a recession. In a business downturn investment normally *falls* more strongly than savings, and the residual to be filled by overseas borrowing falls accordingly.

Apart from the undesirability of *a major recession for both* the world and the U.S. economy, a sharp squeeze by the Fed would not tackle the underlying problem. Although the trade *deficit would shrink as a result* of the induced recession, there is no reason to expect this effect to last when normal growth is resumed, if there is no parallel action taken to curb the budget deficit or improve the savings-investment balance in some other way.

Fresh inflation

Any fresh inflation in the U.S. will be the long delayed consequences of fiscal expansion over several years—long *delayed* because it has been suppressed by overseas borrowing and a high nominal dollar. It would not be consistent with gradualism to try to eliminate a long *accumulating inflation by* an overnight stroke.

In the end I do not think that the Fed will try, unless its hand is forced by a crippling collapse of faith in the long term value of the dollar. The main inhibition of the Fed will not be so much the domestic U.S. or OECD economies, as fears of precipitating a resumed ldc *debt crisis.*

If this means the U.S. living with a large current deficit for a long time, so be it. As the improvements in the U.S. fiscal balance *or U.S. domestic* savings required to tackle the overseas deficit are so difficult to obtain, living with the deficit may be the least bad choice.

** The Sachs and Marris analyses are contained in Brookings Papers on Economic Activity 1985, I, Washington, DC.*

World current balances

	$bn 1982	1985*	1986†
U.S.	− 7 (−0.3)	−120 (−3.1)	−145 (−3.5)
Japan	8 (0.6)	39 (3.2)	48 (3.7)
Germany	3 (0.5)	12 (2.1)	19 (3.0)
Total OECD	−28	− 72	− 74
OPEC	−15	− 4	− 4
Dev. Countries	−64	− 29	− 33
Others	8	8	4
Total	−99	− 97	−107

Figures in brackets are percentages of GNP.
"Total" represents errors and omissions.
* Estimate.
† Forecast.
Source: OECD.

United States

NET FOREIGN INVESTMENT, DOMESTIC SAVING AND INVESTMENT*
Percentage of GNP

	Net private saving†	Government saving‡	Total saving§	Domestic non-residential net investment¶	Net foreign investment‖	Statistical discrepancy
1973	5.2	0.6	5.8	5.3	0.5	0
1974	4.9	−0.3	4.6	4.5	0.3	0.2
1975	6.5	−4.1	2.4	1.5	1.2	0.3
1976	4.8	−2.1	2.7	2.7	0.3	0.3
1977	4.0	−0.9	3.1	3.9	−0.7	0.1
1978	4.1	0	4.1	4.7	−0.7	−0.1
1979	3.6	0.6	4.2	4.3	−0.1	0
1980	3.8	−1.2	2.6	2.5	0.2	0.1
1981	4.8	−0.9	3.9	3.9	0.1	0.1
1982	4.7	−3.8	0.9	1.1	−0.2	0
1983	4.1	−4.1	0	1.1	−1.1	0
1984**	5.4	−3.4	2.0	4.3	−2.6	−0.3

* All data derived from the National Income and Product Accounts.
† Excluding residential investment.
‡ Federal plus State and local budget surpluses.
§ Net private plus government saving.
¶ Includes business net investment in structures and producers durables and the changes in business inventories.
‖ Excluding allocations of SDRs to the United States. With this adjustment, in principle, net foreign investment is identical to the current account balance, but there are some statistical differences in the treatment of some items in the National Income and Product Accounts and the balance of payment accounts.
** Based on preliminary data.
Source: OECD.

Real growth of key aggregates

% changes

	U.S. Domestic Demand (1)	U.S. GNP (2)	Difference (3) (1)—(2)	Rest of OECD Demand (4)	Total OECD Domestic Demand (5)	OECD GNP (6)	Non-U.S. GNP (7)
1982	−1.2	−2.1	0.9	0.8	0	−0.3	0.2
1983	5.0	3.7	1.3	1.3	2.8	2.7	2.0
1984	8.7	6.8	1.9	2.5	5.1	4.9	3.5
1985*	3.8	3.3	0.5	2.5	3.0	3.3	3.3
1986†	3	2.7	0.3	2.5	3.0	2.8	3

* Estimate. † Forecast.
Source: OECD.
N.B. Aggregates are compiled on basis of 1982 values expressed in dollars. In 1982 the U.S. weight in OECD GNP was 40.4 per cent.

Profile: Paul Volcker, chairman of the Fed

By Stewart Fleming

Pragmatist with strong power base

WITH his rumpled suits, cheap cigars and penchant for describing events or ideas of which he disapproves as "kind of nutty," Mr Paul A. Volcker, chairman of the Federal Reserve Board (Fed), is not everybody's idea of the urbane and elegant central banker.

But after six years as the board's chairman during a period of extraordinary upheaval and change in the U.S. and world economies, Mr Volcker's, by central banking standards, slightly eccentric habits of speech and dress, have ceased to provide anything more than colourful images for journalists.

If anything the image he presents of just another guy struggling to understand the complexities of the world he is trying to influence gives the Fed chairman a running start in his dealings with a Congress which is inclined to see itself as populist and with the citizens who come to the Fed to berate him for the economic policies the Central Bank has been following. It certainly has done nothing to detract from his status as one of Washington's most powerful figures.

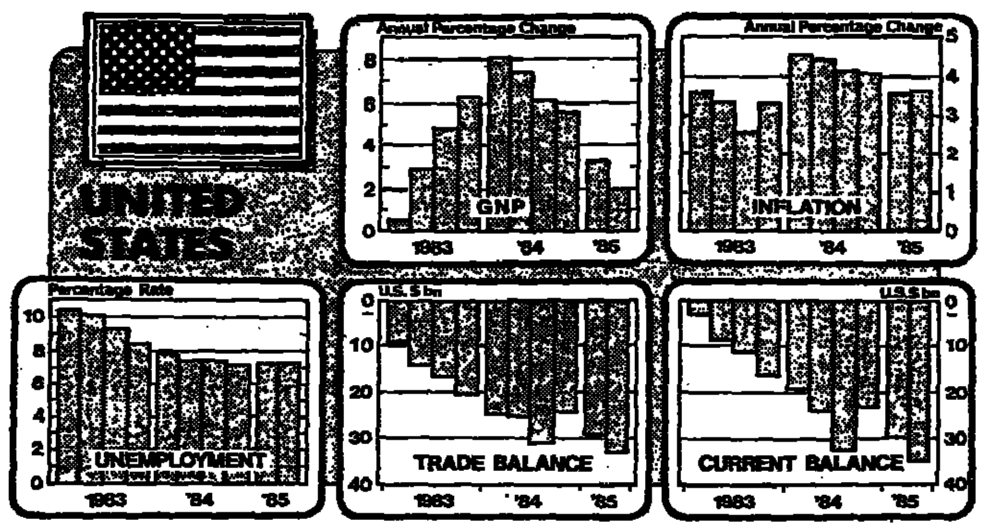
In the eyes of Government officials and politicians in Washington, however, Mr Volcker's reputation is matched only by that of President Reagan himself.

This is not simply a reflection of the fact that regularly each year a public opinion poll in U.S. News and World Report lists him after President Reagan as the most influential public figure in the country—much to the irritation, it is said, of one or two power brokers in the Reagan Administration.

Rather it is a reflection of political realities. In his six stormy years in Washington—during a period which has seen the U.S. Central Bank confronting challenges as formidable in their way as the ones the world faced in the 1930s—Mr Volcker has not only survived the intermittent hostility he has had to endure from factions in the Reagan Administration; he has also enhanced the prestige and the influence of the Central Bank, something which was not accomplished by his predecessors in the Depression.

The Fed's successful battle with inflation—achieved with the support of President Reagan—its skilful co-operation with the International Monetary Fund when the debt crisis erupted in 1982, and Mr Volcker's pragmatic leadership and the shrewd judgement he has shown in deciding when to embrace and when to distance himself from the economic dogmas of the day, have overshadowed the perhaps legitimate arguments of the Fed's critics that a gentler hand on the monetary tiller in 1981 and 1982 might have resulted in a shallower recession. Hindsight, however, is a source of infinite wisdom.

The power base the Fed chairman has constructed is of more than historic interest. It did of course help to ensure his reappointment by President Reagan in 1983 at a time when the Fed chairman's enemies in the White House thought they had a gilt edged opportunity to rid themselves of this meddlesome pragmatist.



Today the Fed chairman's influential position in Washington may well ensure that as the membership of the Central Bank's board of governors begins to change, Mr Volcker will be able to have a decisive impact on the new appointments to the board which Mr Reagan will be announcing over the next few months.

With the resignation of Governor Lyle Gramley in September and the expected departure of Governor Charles Partee at the beginning of next year, there has been much speculation that Mr Volcker's enemies in the White House will be able to secure the appointment to the seven-member Fed board of successors who will ensure that Mr Volcker will be outvoted in the key monetary policy making Open Market Committee (FOMC).

Such an event, it is argued, would precipitate the resignation of Mr Volcker.

Such calculations are complicated by the fact that the FOMC has 12 members—it includes the presidents of five regional Federal Reserve Banks as well as the seven Governors of the Board in Washington. Moreover, the tradition within the Central Bank is not conducive to creation of voting cabals and cliques.

On top of this, however, it is argued that the sudden departure of Mr Volcker in such circumstances sometime next year might do little to buttress confidence in U.S. economic policy and could damage Republican Party prospects in next year's Congressional elections.

For these reasons, it is said, the President will not connive in efforts to undermine Mr Volcker's authority. The implication of this is that Mr Volcker will not be leaving the Fed anything like as soon as his supply side and monetarist critics in Washington would like.

Mr. Paul Volcker (above) has expressed his concern that the current U.S. expansion is unsustainable in the longer term, unless action is taken to reduce the $200bn federal budget deficit, a trade deficit expected to reach $150bn in 1985 and the associated dependence on imported capital at annual rates of $100bn

Element of doubt overshadows outlook

The U.S.

STEWART FLEMING

AFTER the roaring recovery from recession in 1983 and 1984 the U.S. economy has entered a twilight zone poised somewhere between recession and prosperity.

Over the first half of 1985 growth in the U.S. has pottered along at a real annual rate of only a little over 1 per cent, a striking change from the 6.8 per cent annual rate of expansion recorded in 1984.

Indeed, many economists have argued that since the second half of 1984 when the slowdown started to materialise the U.S. has been locked in a "growth recession"—a period of slow expansion which has left unemployment stuck just above the 7 per cent mark and resulted in a slowdown in the rate at which the economy has been creating new jobs.

In the manufacturing sector employment has even been shrinking as import competition—stemming in part from the strength of the dollar on the foreign exchanges—has hit hard in the past year, helping to create a trade deficit projected to reach a new record of US$ 150bn in 1985.

There are inevitably widespread fears that the U.S. slowdown could have ominous implications for the world economy, especially for hard pressed third world debtors.

The Reagan Administration's loose fiscal policy and the $200bn plus budget deficits it has resulted in have been widely criticised.

But many private economists wonder whether if it were not for the fiscal stimulus from the U.S. in 1982 and 1983, and the easing of monetary policy which accompanied it, the world economy would have recovered from the recession of the early 1980s as quickly as it did.

To a very large extent growth in both the industrial and developing world over the past two years, sluggish though it has been, has been fuelled by soaring exports to the U.S.

Thus today the signs of a protracted economic slowdown in the U.S., which many fear amounts to the uncoupling of the locomotive which has been dragging the world economy out of recession, could have ominous implications for the world economy.

Indeed, Federal Reserve Board (Fed) chairman Mr Paul Volcker and British Prime Minister Mrs Margaret Thatcher, have called on industrial countries such as West Germany and Japan to expand their economies more rapidly and take up the slack left by the U.S. slowdown.

Alongside these concerns about the immediate outlook for the world economic upturn as a result of slower U.S. growth, there is continuing unease about the longer-term implications of the performance of the U.S. economy so far this decade.

The U.S. expansion has helped the world economic recovery. But the shape of that expansion with its heavy dependence on Government spending and capital imports has left observers worried that the world economy is vulnerable to new shocks, in particular a sudden collapse in the value of the dollar, which could undermine the economic progress that has been made.

Both Mr Volcker and the International Monetary Fund have expressed their concern that the current U.S. expansion is unsustainable in the longer term unless action is taken to reduce the $200bn federal budget deficit, a trade deficit expected to hit $150bn in 1985, and the associated dependence on imported capital at annual rates of $100bn.

U.S. and Japan: Net capital flows ($bn)

	1982	1983	1984
U.S.			
Net flows intermediated by banks	−59.7	5.2	28.4
Other net capital flows	68.9	36.4	73.3
Total net capital flows	9.2	41.6	101.7
Japan			
Net flows intermediated by banks	− 8.3	−11.1	− 0.6
Other net capital flows	− 1.4	− 9.7	−34.6
Total net capital flows	− 6.9	−20.8	−35.0

Source: Morgan Guaranty.

Mr Volcker in his latest testimony to Congress in July again expressed his concern about a dollar collapse and warned that such an event would represent the biggest threat to the progress which America has made in bringing inflation down from double digit levels, as the 1980s opened, to around 4 per cent now.

Were it not for this remarkable U.S. inflation performance, what optimism there is about the ability of U.S. policymakers to correct the current worrying imbalances in the economy would be considerably diminished.

Already subdued inflation has permitted the Federal Reserve, the U.S. central bank, to adopt a highly stimulative monetary policy (beginning in late 1984) which, while it has not resulted in a vigorous resurgence in growth, has brought dollar interest rates down by between 2 and 3 percentage points this year.

This has helped to ward off fears of an imminent recession. Most private economists are expecting real growth of around 3 per cent in the second half of the year (well below the Administration's optimistic 5 per cent plus projection) and continued expansion at around this rate in 1986.

The Fed's easier monetary policy is also perceived to have contributed to a significant fall in the value of the dollar which has declined by around 12 per cent in trade weighted terms from its March 1985 peak.

Further falls in the dollar's value on the foreign exchanges are seen to be vital if the imbalances in the U.S. trade and current accounts are to be reduced significantly, and one of the major challenges facing policymakers is seen to be the smooth accomplishment of this goal.

Avoidance of a U.S. recession, which would exacerbate both U.S. domestic and international economic problems, is one essential element if this goal is to be achieved. Another is a continued good inflation performance, and convincing action to cut the budget deficit, something the latest budget package does not achieve.

An additional threat to the longer-term economic outlook, which is looming ominously in Congress, is the danger of a resort to protectionist solutions to the adjustments and distortions the U.S. economy is having to make in the face of an overvalued exchange rate.

Although U.S. economic policymakers seek to be walking along the edge of a precipice in their pursuit of a more sustainable pattern of economic growth, it is still possible to hope that they will muddle through successfully.

That judgment still appears to be held by the financial markets, although many traders maintain that confidence in the dollar and the U.S. economy is not what it was.

The new ingredient of doubts about the political as well as the physical health of President Ronald Reagan has contributed to the more questioning view in the markets about the U.S. economic outlook.

This change in mood too will make it harder to overcome the challenges economic policymakers in Washington face.

The U.S. Federal Reserve Bank in New York has adopted a highly stimulative monetary policy on the back of subdued inflation.

Profile: Karl Otto Poehl, President of the Bundesbank By Max Wilkinson

Ideally placed to speak for Europe

IF ANYONE is qualified to respond to demands by U.S. politicians that Europe should be doing more to help the expansion of the world economy, that man is Karl Otto Poehl, president of West Germany's central bank, the Bundesbank.

The genial 55-year-old former journalist has been at the centre of economic decision making in Europe for more than a decade, during which time he has been chairman of the EEC monetary committee, and chairman of the international committee of officials which shadows the "Group of Ten" finance ministers and central bank Governors of the industrial powers.

Now, he is chairman of the secretive and powerful club of G10 central bankers which meets regularly in Basle to discuss the world's monetary and economic problems. And because of the unique independence of the Bundesbank from political control, he has as much claim as anyone to "speak for Europe."

Herr Poehl, compact, relaxed and fizzing with intellectual fun, seems strangely out of place in the soulless concrete bulk of his Frankfurt headquarters with its endless identical corridors. He likes to mix power with paradox and to win his points with a steely twinkle.

He concedes at once that there is a strong case for expansion in the rest of the world in response to the slowing down of the U.S. economy and the need to correct its huge trade deficit.

"We Europeans have to do what we can but . . ." He pauses with a smile that keeps one waiting for the catch ". . . the question is what can we do?"

"The Americans are not always aware of the differences in Europe. Look at Italy, for example, with 10 per cent inflation and a tremendous public deficit—30 per cent of GDP—it would be irresponsible to tell them that they should expand more. And even in France, the possibilities are at least very limited."

But what about West Germany, the most powerful of the European economies, should it not have moved much earlier to take up the baton of growth; when the U.S. economy was so obviously flagging in the first two quarters of the year?

Herr Poehl stiffens for an instant as if to acknowledge a familiar accusation, before resuming in his most genial expository manner.

"In Germany we think we should expand our economy as much as we can. It is in our own interest because of unemployment, and we cannot rely on exports to lead growth indefinitely, so I fully accept the argument that we should expand."

But he believes the West German economy is already set on an expansion course at a rate of about 3 per cent a year, helped by the August cut in interest rates and the announcement that taxes will be reduced by some DM 11bn from next year.

This rate of growth, he argues is close to the prudent limit, above which there would be a risk of running into inflationary bottlenecks.

Private investment, he points out is now rising more strongly, as the authorities had hoped it would, while tax cuts and perhaps rather higher wage settlements next year would stimulate consumption.

West German growth, he stresses is now faster than that in the U.S.; and, without being explicit, he clearly enjoys the irony that recovery in his own country has followed a fiscal policy which is more or less the opposite of that in the U.S.

"Ours is a healthier kind of growth than that which is only stimulated by huge public sector deficits. On the contrary, we have succeeded in reducing ours and we feel that is one of the reasons why our interest rates are very low.

But the question persists: could not the Germans do more? Herr Poehl, who can be very outspoken when it suits him, now retreats towards a central banker's traditional reticence. But he shows that the question has been on his mind.

"We have a very comfortable pace of economic growth," he says, but immediately adds: "It may be too slow to do much to improve the unemployment situation . . ."

Then later, he says he would rather see the West German money supply growing at near the top of its 3 to 5 per cent per annum target range rather than the middle as at present.

So could interest rates come down perhaps another ½ percentage point from the present 4½ per cent?

"I would not exclude a further decline, because our inflation rate is practically zero. That is what I mean when I say we will do what we can."

But that, clearly will depend on whether the dollar continues the steady decline which started in the spring. For the questions of expansion in Europe and the fall of the dollar are inevitably linked by the threat which the U.S.'s huge trade deficit poses to the stability of the world economy.

As Herr Poehl says, present trends cannot possibly continue. Various studies have shown that just the interest on the U.S.'s federal debt would rise to $100bn by 1990, and, as much of this would be owed abroad, there would be huge pressure on the balance of payments. America would be striving to export more and more just to pay its foreign creditors.

Herr Poehl says it is "inconceivable" that the U.S. could actually run up $1,000bn in foreign debts as several projections suggest.

"Something has to happen. And something will happen. It could be a recession, or a collapse of the dollar or protectionism."

To soften the impact of the adjustment in the balances of U.S. trade and to achieve a so-called "soft landing" of the dollar he believes a series of co-ordinated changes will be needed. A substantial reduction in the U.S. federal budget deficit should of course be the central ingredient.

Ideally, this would promote a further decline in U.S. interest rates and an orderly fall in the dollar to a level consistent with a better balance of U.S. trade.

He believes that some further fall in the dollar would be in the interest of Europe as well as the U.S. For even though it would reduce European export competitiveness, he says it would be a mistake to base investment decisions in Europe on the assumption of too high a dollar, as happened in the 1960s, with the possibility of a painful correction later.

But even if the U.S. were to take rapid and decisive action to cut its deficit (which Herr Poehl concedes is very unlikely) the world would still have to cope with a slowing down of trade and a decline in the impetus for growth, particularly damaging to developing countries.

So the Bundesbank president believes a concerted approach by the industrial powers is necessary, matched with greater efforts by debtor countries to put their own houses in order (but he is not sanguine about this last point either).

In detail, the ingredients of this general strategy seem rather modest. Japan, he says needs to open its borders to trade at a faster rate to stave off the threats of U.S. protectionism.

In West Germany, his strategy amounts to no more than keeping up the present rate of growth with perhaps a little further stimulus from lower interest rates. In the UK, he suggested that it might become possible to reduce interest rates from their present high levels.

Some further fall in the dollar would be in the interests of Europe as well as the U.S., believes Karl Otto Poehl.

He admits: "What I have in mind is not any kind of spectacular decision. I mean that we should aim for the same objectives. The Americans have the main job to do."

If they do nothing to cut their budget deficits, he believes there is little chance of solving their trade imbalance by an orderly reduction of the dollar.

This would increase the already grave danger that the U.S. would lurch towards protectionism along with the ever present danger of "overshooting" of the dollar. This is the central banker's euphemism for a crisis of confidence leading perhaps to a catastrophic crash.

Little scope for complacency

Europe
PHILIP STEPHENS

IT HAS been hard to escape the note of self-congratulation among European Finance Ministers as the pace of growth of their economies has overtaken that of the U.S.

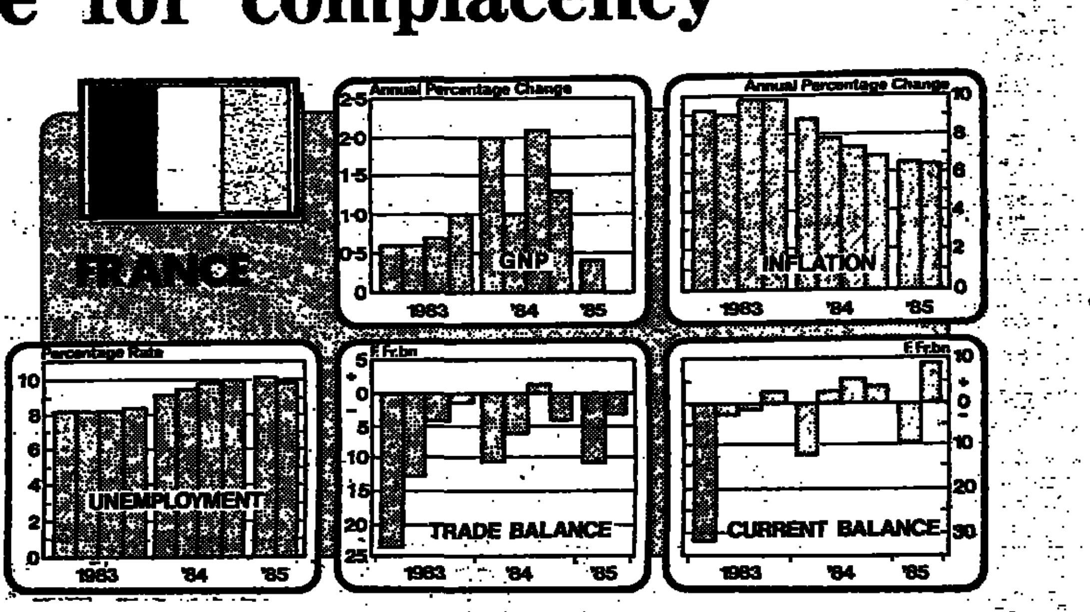
The contrast between the dynamic expansion of the American economy and the apparent Eurosclerosis on this side of the Atlantic was never one that government in London, Bonn or Paris found easy to acknowledge.

Now, while the U.S. Administration has been revising down its growth forecasts and looking nervously over its shoulder at the budget deficit and the dollar, Europe's governments have been promising the rewards of the long hard slog of disinflation.

Britain, in spite of the high level of its interest rates, is benefiting from the bounce-back in its economy after the year-long miners' strike. Growth this year should be 3½ per cent.

West Germany has been trumpeting its success in combining a 3 per cent annual growth rate with only 2 per cent inflation. And France seems to be at last pulling out of the quagmire recession.

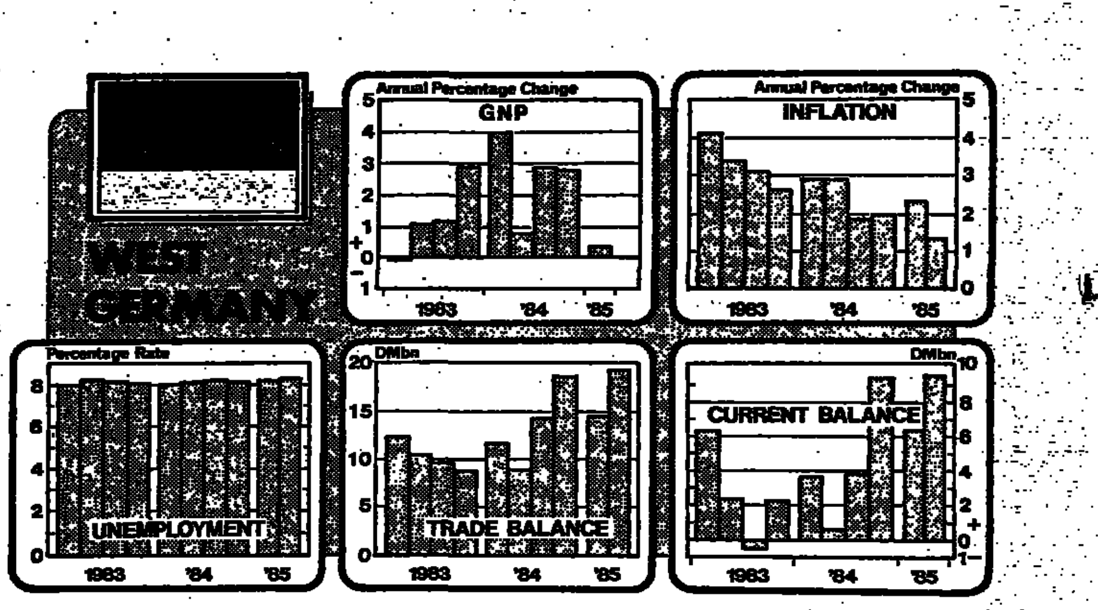
But if Europeans can draw quiet satisfaction from the apparent proof that Reaganomics was only ever a temporary panacea, the outlook offers little scope for complacency.



As the U.S. economy slows, industry in Europe will lose the huge boost to worldwide demand provided by the burgeoning U.S. trade deficit.

The Paris-based Organisation for Economic Co-operation and Development (OECD) estimates that U.S. import growth has increased European output by ½ per cent on average in each of the last two years. The figure for 1985 may be nearer to ¾ per cent.

With that stimulus removed —it has not yet happened, because the fall in the U.S. growth rate has been more a reflection of higher imports than of lower domestic demand — the outlook for Europe looks less unambiguous.



The OECD says that in key economies like West Germany, the faster growth of exports than imports accounted for nearly 40 per cent of the rise in output last year. For France the figure was 59 per cent and for smaller countries like Belgium about 50 per cent.

Europe's economies may also be less buoyant than they appear at first sight.

About one percentage point of the expected increase in Britain's output this year will come from the boost to coal production and higher oil exports resulting from the settlement of the miners' dispute.

West German politicians speak cheerfully of a 3 per cent annual growth rate for their economy, but comparisons with 1984 have been distorted by the metal-workers dispute in the second half of the year and by an earlier disruption to car output.

In France, where the Government has achieved considerable success in pushing down the inflation rate, growth may slow this year before an expected recovery next year.

Putting that together with developments in smaller economies the OECD is forecasting that the average growth rate for Europe in 1986 may be only 2¼ per cent, about the same as anticipated for this year.

That may be accompanied by further gains on inflation —perhaps to an average annual rate of 6 per cent — but is unlikely to make a significant dent in Europe's massive unemployment total.

In Britain, where the recovery is in its fourth year, the number of people out of work has been continuing to rise, while West Germany seems resigned to waiting for favourable demographic trends at the end of the decade to solve the problem.

There have been some favourable signs. Employment in Europe began to rise last year as the shake-out in manufacturing industry slowed, and the recovery generated more jobs in the service sector.

The rise in the working population and the pace of productivity gains, however, are continuing to outstrip the number of jobs generated by higher output.

The OECD's projections suggest that there will be 19½m people out of work in Western Europe by the end of next year, 500,000 more than at present, with the average unemployment rate rising from 11 to 11½ per cent. That compares with an expected jobless rate of only 2½ per cent in Japan and 7½ per cent in the U.S.

And even the relatively modest increases in European output now anticipated are not assured.

So far the dollar's decline on foreign exchange markets has been controlled. European governments have responded to the consequent downward pressure on their inflation rates by nudging down their interest rates to encourage faster economic growth.

But there is still concern in organisations like the OECD and European Commission — and incidentally in the U.S. — that Europe will not do enough to compensate for the impact on the world economy on slower U.S. growth.

There is little support for a major stimulus to demand that might threaten hard-won gains on inflation.

But if the dollar does continue to fall, many economists believe that Europe — and in particular West Germany — will have to take more vigorous action to maintain the momentum of their own economies.

The fear is that governments will take advantage of a lower dollar exchange rate to push down their inflation targets rather than opt for lower interest rates. And what most other governments can do will depend crucially on the decisions taken by West Germany.

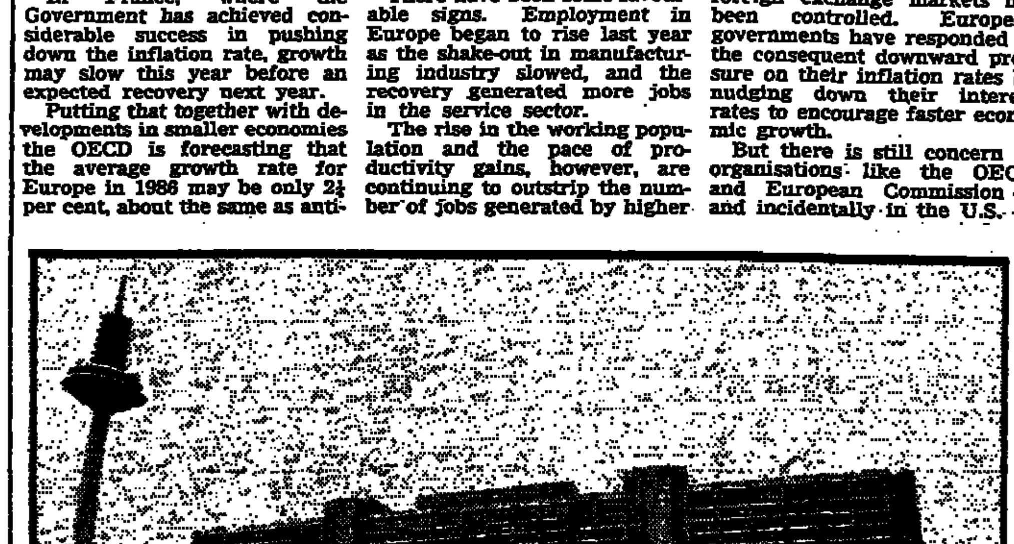
The Bundesbank has so far played an active role in lowering interest rates, but France and Italy have argued forcibly that it has been too cautious in expanding its economy.

Because of the pivotal role of the D-mark in the European Monetary System, those countries cannot use the room for manoeuvre offered by a lower dollar without a lead from Bonn.

Many economists believe that countries like West Germany and Britain, which have ratcheted down their budget deficits over the last few years, may need to combine lower interest rates with some fiscal expansion to keep up the pace of growth.

So far both have resisted the idea, although West Germany is cutting its taxes in January.

But unless the expected rebound in the U.S. economy later this year proves stronger than anyone expects, then Europe may face the prospect of slower growth next year and an even sharper rise in its unemployment total.



The Bundesbank. It has so far played an active role in lowering interest rates, but France and Italy have argued forcibly that it has been too cautious in expanding the West Germany economy

Unemployment is central dilemma

The UK

MAX WILKINSON

THE popularity of the Thatcher Government in Britain has fallen sharply this summer, as a clear reflection of voters' anxieties about the handling of the economy.

In her reshuffle of the Cabinet at the end of the holidays, the Prime Minister seemed to acknowledge that the economy has come once more to the centre stage of politics, and that the course set in the coming months may well determine the Conservatives' fate in the next general election.

Mrs Thatcher's resounding victory in the 1983 election owed at least as much to the continuing wave of patriotism which trailed after the Falkland Islands conflict as to any claims to have "defeated" inflation.

Then, as a mood of disillusion seemed to be establishing itself, her popularity was again buoyed up by the courage and dignity she showed after the bombing of the Tory party headquarters during its annual conference in Brighton.

But now once again opinion seems to be focusing on the Conservatives' answer to Britain's central dilemma: how to reduce unemployment from the present 3.2m (more than 13 per cent of the available workforce) without re-kindling inflation. The opinion polls seem to reflect the fact that the Government is offering no easy answers.

It is true that the economic recovery, now in its fifth year, is the longest since the War; the continuing underlying rate of growth of about 3 per cent is quite respectable by post war standards. Moreover the fact that it owed little to a build up in stocks, suggests that the next downward part of the business cycle may be less severe than in previous periods.

All these pointers support the Government's claim that its policies of monetary and fiscal restraint have helped to usher in a new era of steady "sustainable" growth. Treasury economists even speculate whether the business cycle has been—if not abolished—at least severely flattened.

These arguments, however, have failed to convince many voters who see more simply that unemployment has continued to climb by about 10,000 per month (at least until this summer), while the inflation rate has rebounded to a very uncomfortable peak of 7 per cent, after dipping to 4½ per cent at the end of last year.

Not only have the inflation and unemployment figures been significantly worse than the Government had expected, but unease and scepticism in the City about the conduct of monetary policy may have percolated into the general consciousness.

> Scepticism in the City about conduct of monetary policy may have percolated into the general consciousness

In populist terms this adds up to the question: "Does the Thatcher Government still know where its economic policy is going, and does it still have a firm hand on the tiller?"

The question is fair because the year started extremely badly for the UK economy with a sterling crisis, which provoked a sharp yawing of monetary policy from its previous course, and a 4½ percentage point rise in interest rates to an unprecedented real level.

In part this was bad luck: an unfortunate combination of a soaring dollar, threatening parity with the pound and market scares about a collapse of the oil price.

These external buffers came just at a time that the full effects of the miners' strike in pushing Government borrowing over its target was becoming evident to the City, although the Government still refused to admit to anything like the eventual £3bn over-run of its £7bn target.

All these accidents of fortune might have been forgiven if the City had not been disturbed by well founded suspicions that the Treasury was trying to engineer a covert reflation of the economy.

A general easing of policy appeared to have been signalled as early as the autumn of 1984, when Mr Nigel Lawson, the Chancellor, suggested at the International Monetary Fund's annual conference, that the focus of his attention was turning from the defeat of inflation to the problem of unemployment. At the same time the Governor of the Bank of England suggested that interest rates could come down significantly.

UK interest rates were, indeed, pushed down quite aggressively while officials emphasised that sterling's weakness against the dollar reflected U.S. rather than British problems.

At the same time there were strong suspicions in the City that a modest, but still significant fiscal reflation was going to be tolerated if not encouraged.

It was clear, by the end of 1984, that the public sector borrowing requirement was going to be about 60 per cent higher than the target announced in the previous Budget.

This might have been explained away as the price of winning almost a year long conflict with the miners. However, there were strong indications that a further borrowing overshoot was going to be produced, and even perhaps tacitly accepted, fo- the current year (1985-86).

On the spending side, targets were generally agreed to be extremely tight if not hopelessly unrealistic, particularly in the assumption about inflation and unemployment. On the revenue side, there was general anxiety that North Sea oil revenues were vulnerable to a fall in the dollar which would depress the value in sterling terms of the taxes collected.

On top of all this, there was perception that the Conservative party was so wedded to the idea of tax cuts in the March 1985 Budget, that risks would be taken with the probity of the fiscal stance, either by tolerating increased borrowing or by stepping up the sales of public assets as a substitute for borrowing in the gilt edged markets.

All these doubts, shared in varying degrees in the markets, conspired to undermine sterling, not just against the dollar, but also in terms of the Continental currencies.

Drastic remedies were needed, not just through higher interest rates to tempt capital back to Britain, but in some very public political breast beating to show the market that the Government's determination to give top priority to the fight against inflation had been "re-affirmed."

This display of toughness has been highly successful, as indeed it ought to have been considering the cost, in terms of interest rates.

Sterling rose sharply against Continental currencies as well as against the dollar, putting on nearly 8½ per cent against the D-mark by the end of August compared with its average in February, and 28 per cent against the dollar.

As might be expected, inflationary pressures have moderated sharply. The combination of a high pound and weak international commodity prices, have helped to reduce the annual rate of increase of manufacturers' buying prices from around 8 to 9 per cent to about 2 per cent. Almost all indicators suggest that inflationary pressures are now moderating and that the annual rate of increase of retail prices will fall from about 7 per cent this summer to the 3½ to 4 per cent range by the middle of next year.

Nevertheless, the squeeze on prices has caused severe discomfort in manufacturing industry, as was shown by a series of voluble protests this summer from the leaders of the Confederation of British Industry about the effect of the higher pound in reducing export competitiveness and the burden of high interest rates upon corporate borrowers.

Mr Nigel Lawson, the Chancellor replied with characteristic vigour that industrialists should help themselves by curbing wage costs. With the annaul rise in manufacturing earnings running at about 9 per cent, he pointed out that even moderate restraint on the pay front could help profitability far more than a cut in interest rates.

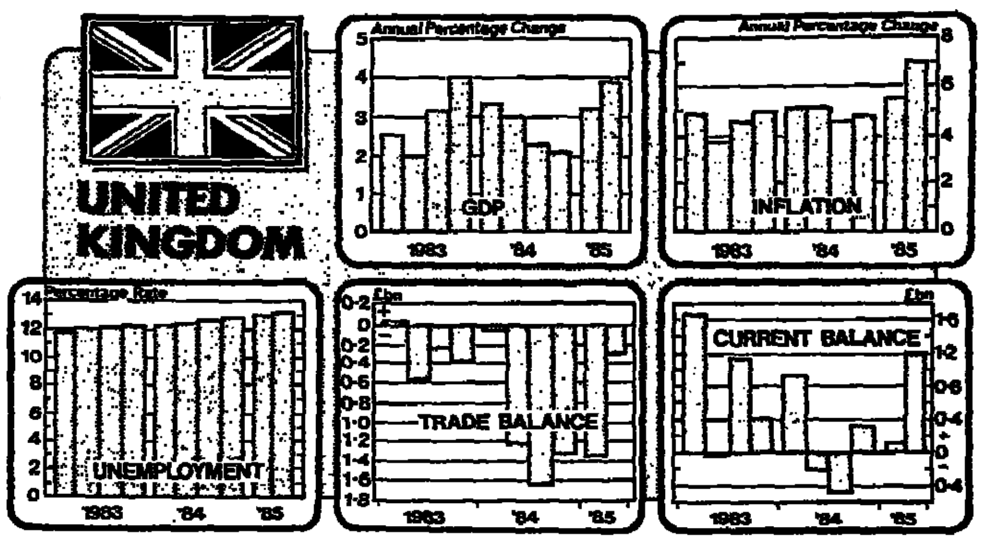
This was a neat intellectual point, but it nevertheless betrayed the major difficulty which faces the Government over the coming months.

It has demonstrated that tough financial policies can control prices, mainly through the effect of a firm exchange rate in pushing down import costs.

But these policies have only the weakest control over wages. Consequently, it is open to companies to continue their recent practice of agreeing to raise earnings much faster than prices, but to square accounts by employing fewer people.

Not only has manufacturing employment continued to decline during the recovery period, but all the evidence suggests that investment has been predominantly intended to replace workers rather than to increase output capacity.

So, the perennial dilemma between control of inflation and the hope of increasing growth and jobs will become particularly acute this autumn, as the Treasury assesses the competing risks of precipitating yet another exchange rate crisis, with all the inflationary risks, of continuing to squeeze the "real economy" so hard that unemployment, instead of abating rises to yet unexpected heights. This would have dire consequences for the morale of the workforce, and the stock of trained manpower, as well as for the Treasury's own fiscal position.



Future hinges on private sector

Japan

CARLA RAPOPORT

IN THE world's second richest industrialised democracy, more than 50 per cent of the people still sleep on the floor. Japan's tradition of austerity, even in the face of increasing wealth, has assured continued economic prosperity.

To be sure, as the economies of Japan's major trading partners have been slowing down, Japan's economic outlook continues to look sound. The Industrial Bank of Japan (IBJ), one of the country's most influential financial institutions, for example, predicts real growth this year of 4.6 per cent, less than a percentage point off last year's jump of 5.7 per cent.

The IBJ believes that modest growth in private consumption and housing, a decline in imports and continued capital investment by industry will largely offset the sharp drop it expects in exports during the current fiscal year.

This will mean, of course, another year at least of friction between Japan and its main trading partners over Japan's huge current account surplus. The surplus, according to the IBJ, is expected to leap to nearly $50bn this year from $37bn last year.

Japanese officials themselves admit that the recent market-opening measures announced by Mr Yasuhiro Nakasone, Japan's Prime Minister, this summer are not likely to have any swift effect on the country's huge trade surplus.

This has led a number of prominent businessmen and politicians both at home and abroad to renew calls for boosting domestic demand, either through Government-backed projects or fiscal incentives for increased private sector spending.

The chances for this boost to come from Government spending appear to be slim. Japan's budget deficit almost rivals the U.S. as a proportion of GNP (4.5 per cent in Japan, 5.8 per cent in the U.S.) and does not look like getting any smaller.

The politically unpopular move of raising personal taxation looms ahead of the ruling Liberal Democratic Party, but political leaders would like to defer that day as long as possible.

In the meantime, private sector spending, aided by various tax and depreciation incentives, is expected to do most of the running.

In a recent economic report, Mr Shin-ichi Kinoshita, managing director of the Bank of Tokyo, noted: "Total business capital outlays are currently growing at a rate much slower than the very rapid pace of the last fiscal year because of decelerated export growth. But investment in such areas as new product development, rationalisation and energy savings can be expected to show continued healthy growth, supported by strong corporate earnings. Meeting with many business executives, I have noted their firm resolve to keep up with the current rapid tempo of technological innovation."

A recent study by the Nomura Research Institute echoed these sentiments. Forecasting a firm 4.5 per cent real growth rate in GNP over the next ten years. Nomura predicts that private sector investment should be the motor for that growth and not Government spending or exports.

Forecasting a 7.4 per cent increase in real terms in private equipment investment over the next ten years, the study predicts that public enterprises will benefit from technological innovation, deregulation and privatisation of public enterprise.

Citing stable prices and what it calls "a rising propensity" to consume, Nomura forecasts that the average Japanese's personal consumption will grow at an annual rate of 4.6 per cent, while housing starts should put on a 4.1 per cent real growth per annum.

Such optimism may be a bit overdone, considering the country's still-strong savings ratio (around 18 per cent of income) and long history of self-denial. Still, Nomura agrees that Government spending and external demand will register slow growth over the next ten years.

Government consumption and public fixed capital formation are forecast to grow 2 per cent and 1 per cent respectively. Exports are expected to slow to 4 per cent annual growth, falling below imports growth.

Key to such a scenario would be a strengthening yen, which like the falling dollar, has been one of the most predicted events of the last few years. Most expect a gradual, as opposed to drastic, realignment between the two currencies as the U.S. economy slows.

As a result, the Bank of Japan's monetary policy is expected to remain easy. As the yen strengthens, money market rates are likely to decline gradually. The bank's official discount rate is expected to be cut — for the first time since October 1983 — when the yen hits the Y220-Y230 range against the dollar.

In its annual report on the economy, Japan's Economic Planning Agency stated last month: "The challenge for Japan's future is to realise the potential of a new type of economic growth. This will be accomplished by calling on the will of the private sector, not waiting for the hand of Government. Unless this path is followed, there is no future for the nation, for business, or for the individual."

These are strong words from a nation of people who still, by and large, prefer to sleep on the floor.

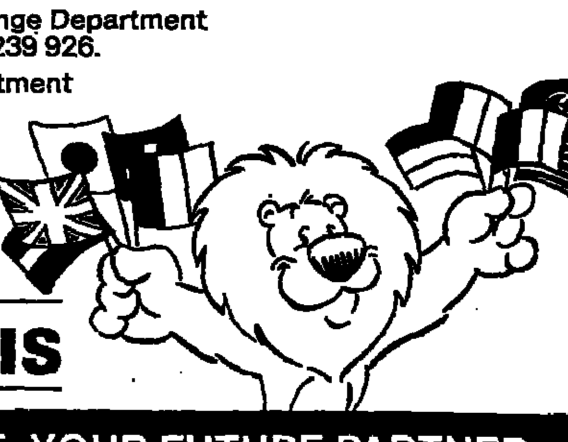
Japan

(Year-to-year percentage change, unless otherwise stated)

	1983	1984	1985†
Nominal GNP	4.2	6.7	6.2
Real GNP in 1975 prices	3.9	5.7	4.6
Private consumption	3.1	2.6	3.6
Private housing	– 8.7	2.0	3.1
Plant and Equipment investment	5.4	11.0	8.3
Inventory investment (trillion yen in 1975 prices)	1.0	1.5	2.1
Government expenditure	1.4	1.4	– 0.3
Exports, etc	9.3	16.3	5.7
Imports, etc	0.3	11.2	3.1
Industrial production index	6.4	9.9	5.7
Wholesale price index	– 2.3	0.2	– 0.5
Consumer price index	1.9	2.2	2.2
Current account balance ($bn)	24.2	37.0	49.0
Long-term capital account balance ($bn)	–20.5	–54.4	–52.4
Basic balance ($bn)	3.4	–17.4	– 3.4
Yen/dollar exchange rate (period average)	236.33	244.19	239.00
Official discount rate (period average)	5.0	5.0	5.0
Money supply: M2+CDs (average balance, %)	7.5	7.8	8.1
Corporate profits (large corporations)	18.0	21.9	8.1

† Forecast.

Source: Industrial Bank of Japan.



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Federated Department Stores, Inc.

$100,000,000

10⅛% Notes due July 9, 1995

Goldman Sachs International Corp. Shearson Lehman Brothers International

Barclays Merchant Bank Limited
Commerzbank Aktiengesellschaft
Credit Suisse First Boston Limited
Dresdner Bank Aktiengesellschaft
Generale Bank
LTCB International Limited
Morgan Guaranty Ltd
Société Générale
Swiss Bank Corporation International Limited
Union Bank of Switzerland (Securities) Limited

July, 1985

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Ford

Ford Motor Credit Company

$100,000,000

9½% Notes due July 1, 1990

Goldman Sachs International Corp.

Deutsche Bank Aktiengesellschaft
Swiss Bank Corporation International Limited
Union Bank of Switzerland (Securities) Limited
Commerzbank Aktiengesellschaft
Banque Nationale de Paris
County Bank Limited
Credit Suisse First Boston Limited
Generale Bank
Merrill Lynch Capital Markets
Morgan Guaranty Ltd
Salomon Brothers International Limited
Sumitomo Finance International

June, 1985

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The Procter & Gamble Company

$150,000,000

10% Notes due July 16, 1995

Goldman Sachs International Corp.

Morgan Guaranty Ltd

Salomon Brothers International Limited

Amro International Limited
Banque Nationale de Paris
Barclays Merchant Bank Limited
Baring Brothers & Co., Limited
Berliner Handels- und Frankfurter Bank
Citicorp Investment Bank Limited
Commerzbank Aktiengesellschaft
Credit Suisse First Boston Limited
Dai-Ichi Kangyo International Limited
Daiwa Europe Limited
IBJ International Limited
Kredietbank International Group
LTCB International Limited
Merrill Lynch Capital Markets
Mitsui Trust Bank (Europe) S.A.
Samuel Montagu & Co. Limited
Morgan Grenfell & Co. Limited
Morgan Stanley International
The Nikko Securities Co., (Europe) Ltd.
Nomura International Limited
Orion Royal Bank Limited
Smith Barney, Harris Upham & Co. Incorporated
Toronto Dominion International Limited
Union Bank of Switzerland (Securities) Limited

Yamaichi International (Europe) Limited

July, 1985

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UNITED TECHNOLOGIES

UT Financial Services Corporation

$100,000,000

10⅝% Notes due August 28, 1995

Goldman Sachs International Corp. Salomon Brothers International Limited

Algemene Bank Nederland N.V.
Banque Nationale de Paris
Chase Manhattan Capital Markets Group
Citicorp Investment Bank Limited
Crédit Lyonnais
Daiwa Europe Limited
Deutsche Bank Capital Markets Limited
Dresdner Bank Aktiengesellschaft
Lloyds Merchant Bank Limited
Merrill Lynch Capital Markets
Morgan Guaranty Ltd
Nomura International Limited

Union Bank of Switzerland (Securities) Limited

September, 1985

SECTION II – COMPANIES AND MARKETS
FINANCIAL TIMES
Monday September 16 1985

Moussa participates in Rhône Poulenc's FFr 1bn CI issue

M PIERRE Moussa, the French investment banker who resigned as chairman of Paribas in a row with the Socialist Government in 1981, is playing a key role in a plant to bring back international shareholders to Rhône Poulenc, the nationalised chemicals company, *writes David Marsh in Paris.*

M Moussa, chairman of the London arm of Dillon Read, the New York investment banking group, will be helping to place overseas up to 25 per cent of the FFr 1bn ($111m) issue of *certificats d'investissement* (CI), *or non-voting* preference shares, announced by Rhône Poulenc last week.

The Rhône Poulenc issue will not lead to any loss of state control. The French Government, which took the company into the public sector in 1982 as part of its sweeping nationalisation of banks and industry, will retain 100 per cent of voting shares.

But the transaction amounts to the largest operation yet by a nationalised French industrial group to open up its capital to private shareholders. Many bankers and industrialists see the CI's being sold by French state enterprises as paying the way for progressive denationalisation, irrespective of whether a right or left-wing government is in power.

Dillon Read well be helping to manage international placement of the Rhône Poulenc issue along with *London* brokers Cazenove and Credit Suisse First Boston. Société Générale will be main lead manager among the French banks handling the domestic portion of the issue.

Ironically, Paribas, M Moussa's former employer, which was nationalised in February 1982 along with the other big French private banks, is not participating in the management group for the issue.

Paribas, which previously was one of Rhône Poulenc's main bankers, left the company's banking "pool" at the beginning of 1983 as part of a change in its loan strategy.

M Moussa quit Paribas in October 1981 after a row with the Government

Dillon Read's London banking arm, in which M Moussa's international Pallas financial group has a 50 per cent stake, has already played a minor role in capital market *operations by other French* nationalised companies in the last year

The Rhône Poulenc CI issue will lead to non-voting shareholders taking a stake of about 7 to 8 per cent in the company's share capital. The maximum foreign stake after the share placement will thus amount to roughly 2 per cent of overall equity.

Although this is small, the issue will be a general test of the interest of foreign investors in Europe and the U.S. into French state-owned groups.

The question of foreign stakes is rapidly becoming an emotive issue in the debate over the right-wing Opposition's denationalisation policies. M Pierre Bérégovoy, the Finance Minister, told a Socialist conference at the weekend that Opposition plans to sell state banks overseas threatened "the financial independence of France."

Although CI issues were authorised by a change in the law in January 1983, the French Treasury was initially wary over allowing them to go ahead because non-voting share issues appeared a first step to denationalisation.

Rhône Poulenc believes the FFr 1bn target is a minimum and is hoping to raise FFr 1.2bn from the issue, together with a further portion of perhaps FFr 150m through sale to employees. The issue will probably be made at a price of around FFr 350 a share.

This would value the company at about six times earnings, or around the ratio of the big West German chemical groups. It will probably carry a dividend of FFr 5 in excess of the company's payout to its state shareholder. Terms are to be fixed on September 24, and the first day of trading is set for October 28.

INTERNATIONAL BONDS

Washington's Friday data dictate the pace

"I SPENT the whole week waiting *for Friday and when it came I still* didn't know where the market was going," said one Eurobond trader late last week, writes Maggie Urry in London.

September looks like being a month of Fridays. Each week more U.S. *economic statistics* are released on Friday. Before their release, traders are keen to keep positions flat and business at low levels. After, they are confused as to whether the U.S. economy is booming or slumping.

Last Friday's figures – industrial production and retail sales – were better than expected, giving some encouragement to the idea that the previous week's unemployment data were an aberration and the economy was not growing as fast as bond dealers had feared.

This Friday, the "flash" third-quarter GNP figure is due, and who knows what that will be or how far wrong it later proves to be?

From the Eurodollar bond investors' point of view, neither a fast nor a slow growing U.S. economy is good news. The former means higher interest rates and the latter a weaker dollar.

On Friday afternoon, though, the market picked up a fraction, and *some traders even reported some* buying interest. That may well encourage a few issues to come out of the woodwork early this week.

Last week there was a shortage of fixed-rate issues targeted for European investors to buy. The clear *winner of the deal of the week* award was Eli Lilly's $150m issue.

For once, syndicate managers could forget their differences, and all agreed that the issue was not only a success but just what the market needed.

"It's a good name, good pricing and non-callable," a manager said, and retail investors, who have long escaped the sniffer dogs of the bond market, reappeared *to buy the issue.* By the weekend *it* was still trading comfortably within the 1¼ per cent selling concession.

Banque Paribas stuck out its neck launching a deal for Thomson-Brandt, the French electronics company, *on Friday morning, before* the dreaded U.S. statistics were published. No guillotine appeared, though, and the unusual issue met demand.

The bonds, which pay a 10 per cent coupon, have a put option after two years at par. Investors can therefore be sure of getting out of the bonds if in 1987 interest rates are higher. If not, they can hold on, with the same coupon, for another five years.

EUROMARKET TURNOVER
Turnover ($m)

Primary Market	Straights	Conv	FRN	Other
U.S.$	2,519.3	3.3	547.3	140.9
Prev	1,228.3	158.7	88.0	85.5
Other	993.6	–	1.6	11.8
Prev	1,528.9	0.1	20.1	48.1
Secondary Market				
U.S.$	12,374.9	722.9	11,535.4	2,135.2
Prev	12,498.2	724.6	11,309.6	2,016.2
Other	3,199.1	43.4	775.4	1,354.5
Prev	3,655.9	64.2	631.9	1,395.6

	Cedel	Euroclear	Total
U.S.$	10,008.5	20,271.8	30,280.3
Prev	8,725.2	19,350.7	28,075.9
Other	3,800.8	2,578.8	6,379.6
Prev	3,961.0	3,581.7	7,542.7

Week to September 12 1985 *Source: AIBD*

Although the issue price is 100%, anyone who can buy the bonds at less than the 1½ per cent fees can get a two-year return better than two-year London interbank offered rate (*Libor*) and *substantially* higher than U.S. Treasury yields. Then they have an option on a five-year 10 per cent issue. On Friday afternoon the bonds were trading within their fees.

At last, floating-rate traders have had some paper to pick from. Mismatch floaters could be in vogue once more, and traders were anticipating some more deals this week. Only one – for Iselmer – was launched last week.

Mismatches are popular when the yield curve is steep, with a pick-up of ½ percentage point between one-month and six-month Libor seen as a trigger point for interest. The summer saw very flat yield curves, but the magic ½ point has come into play once more, although the whole curve has moved upwards.

With a mismatch the coupon is refixed usually every month with the payment made every six months. Investors can therefore borrow at one-month rates and lend at six-month rates taking the difference between the two. They have an added advantage when interest rates are rising because the monthly refixes will reduce the loss of interest sustained when rates rise between roll-over dates.

Fashions change fast in the Eurobond market, and last week the capped FRN patterns were taken out of the cupboard, and with a *quick redesigning of some of the* lines, three deals were launched. The new variation is a delay on the cap – the maximum coupon only comes into force after three or four years. Investors get a much better margin over Libor in return.

*With margins so slim in the float*er market these days many investors are prepared to take the risk of the cap in order to lock into the higher spread.

More deals could come, but this time the fad has waned fast. Although Takugin's issue continued to trade well and Security Pacific's was making a decent showing, by Friday Christiania Bank's deal was quoted around 99.30 – outside the 60 basis point fees. Syndicate managers, particularly those long of the bonds, said that lead manager Salomon Brothers had failed to provide adequate support for the deal.

Without some sign that a lead manager is prepared to buy bonds back at a price where co-managers can get out without losing money, the market gets nervous and traders dump bonds.

There was some relief among traders in the Australian dollar and European currency unit markets that there were no new issues in either sector last week. Oversupply of paper has at last closed both sectors, while in the Ecu sector investors are still concerned about a possible realignment of the basket. The peace may soon be broken, however and this week an Ecu issue from the World Bank is expected. An Ecu floater is also rumoured with a French name suggested as the borrower.

The dollar and the weaker New York market before Friday, had a dampening effect on the D-Mark market last week. Prices drifted lower in the absence of buying support. New issues were reasonably well received and another three are expected this week with both the World Bank and the Council of Europe due to launch issues.

A more optimistic tone is discernible in the Swiss franc foreign bond market where yields are edging lower and new issues are generally meeting good receptions. Today Portugal is due to test the market with a public issue, probably for *SwFr 100m, to be led by UBS.* Later in the week SBC is expected to indicate terms for an issue for Korea Development Bank.

Australian Wheat Board reaps benefits from experiments

FRIDAY'S SIGNATURE by the Australian Wheat Board of a $250m direct note issuance programme with Citicorp as the sole dealer marks a further diversification by a borrower that is rapidly, but discreetly, becoming one of the most experienced issuers of short-term debt in the world, writes Peter Montagnon in London.

The board, which is a state agency responsible for marketing Australia's wheat crop, started borrowing overseas only in 1983, but by the end of last year had amassed total borrowings of about $2bn. This year its aim is to increase the total to more than $3bn, but what is interesting the market is the way in which the board as a new borrower has been prepared to experiment.

Initially its strategy was to divide its foreign borrowing between Europe and the U.S. where it has a $750m commercial paper programme and a $450m bankers acceptance facility. In Europe it has put in place a £250m acceptance facility and a $500m Euronote facility under which paper is issued through a tender panel.

Central to its strategy is the belief that tapping many different markets will lead to the broadest possible distribution of its paper with investors. In the process, however, its operations have made it a kind of guinea-pig which bankers can use to monitor the relative advantages of different issuing and distribution techniques.

The board is well suited to such a role in other ways. As a borrower it is tied to the short-term markets by *the seasonal nature of its business* which involves heavy cash outlays for grain purchases at the height of the harvest in December and January followed by a long marketing process. It also uses the markets it taps rather than just arranging *dormant standby facilities. And since it* is underwritten by the Australian Government it is an impeccable credit.

Some eyebrows were therefore raised when its note programme with Citicorp was first mooted a couple of weeks ago. *It* would be easy to conclude that after various experiments the board has become wary of the tender panel system, especially since it has just switched the bulk of its domestic Australian borrowing programme away from a *tender panel system to the direct is*sue of commercial paper. It is also arranging a commercial paper programme in Europe for $300m for which Credit Suisse First Boston, Merrill Lynch, Salomon Brothers and Swiss Bank Corporation Inter*national are designated* dealers.

Notes issued through the board's tender panel fetch a yield close to the London interbank bid rate (Libid). In the past the yield has been higher, and even present rates are not really that impressive when set against the discount on *Libid* achieved by borrowers such as Sweden. That in itself may well be a reason for trying something new, but the question still remains as to why the tender panel produced results that did not seem fully to match the borrower's high credit standing.

One possible reason is that the make-up of the CSFB-led tender panel led to the notes being distributed mostly with banks which naturally resist anything yielding less than the Libid benchmark. By introducing a direct issuance and commercial paper programme, the board may find it easier to tap other investors which may accept finer rates – such as central banks, corporations and even retail buyers.

*This is not to say that tender pan*els will always produce this result. It depends heavily on how they are composed. But there is also clearly a conclusion that the best rates for a top borrower can be achieved by dealers who place paper with non-bank investors. And that realisation may produce an increasing swing towards direct Euro-commercial paper issues in the months ahead, especially if rising interest rates take away the funding advantage that bank buyers had when cost of money was falling.

Elsewhere, Household Finance is raising a $200m, three-year revolving credit through Orion Royal Bank. The deal bears a margin of ⅛ per cent and commitment fee of ⅛ per cent. The Hertz car hire concern is due to launch a $100m facility through Bank of America with an annual 17½ basis point fee.

INTERNATIONAL CAPITAL MARKETS

U.S. MONEY AND CREDIT

New York bond prices stage partial rally

POSSIBLY back on an even keel, U.S. bond prices rallied late last week in response to a weaker than expected batch of economic statistics—all but reversing the sharp price losses of the previous week.

Among the latest numbers released on Friday morning were August industrial production, up 0.3 per cent, or about half the expected increase, and a 0.2 per cent drop in August producer prices, wiping out July's gains, which helped calm any embryonic inflation fears.

Although August retail sales rose a robust 1.9 per cent, the markets managed to discount the surge on the basis of cut-rate car financing. Excluding vehicles, market economists noted that retail sales rose a much more modest 0.3 per cent.

All this helped calm credit market nerves about a strong economic rebound in the third quarter — implying greater credit demand and a possibly tighter Federal Reserve, fears which took real form after the buoyant employment data released the week before.

But even before the Friday rally, the markets had taken some comfort from the pronouncements of Mr Preston Martin, the Fed's often outspoken vice-chairman. Mr Martin, speaking in New York, repeatedly characterised the economy as "sluggish," said he doubted predictions that it would expand at a real rate of 4 per cent in the second half, and generally poured scorn on some recent administration assertions that the economy is "bouncing back."

All this was pure music to the credit market's ears, although it did not do much for equity prices or the dollar. When the Friday numbers rolled in, bond prices took off. The Treasury long bond gained more than 1½ points to close up 1⅛ on the week at 100⅞. At the current price the long bond is yielding 10.59 per cent.

Overall, government bond prices gained upwards of ⅜ of a point on the week while in the money market short-term rates were unchanged to down a bit.

Looking back a year, the Treasury long bond was yielding 12.13 per cent and the Fed funds rate was well over 11.25 per cent compared to a steady 7.75 to 8 these days. It was roughly a year ago that the Fed changed direction and began easing in response to the first signs that the U.S. economic recovery was faltering.

U.S. MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	12-month High	12-month Low
Fed Funds (weekly average)	7.89	7.89	8.07	11.44	7.10
Three-month Treasury bills	7.21	7.25	7.31	10.60	6.87
Six-month Treasury bills	7.38	7.42	7.39	10.44	6.91
Three-month prime CDs	8.00	8.00	7.85	11.45	7.33
30-day Commercial Paper	7.95	7.70	7.78	11.25	6.85
90-day Commercial Paper	8.00	7.75	7.70	11.10	7.00

U.S. BOND PRICES AND YIELDS (%)

	Last Friday	Change on week	Yield	1 week ago	4 wks ago
Seven-year Treasury	100¾	+⅜	10.25	10.35	10.14
20-year Treasury	99⅞	+1⅛	10.76	10.90	10.70
30-year Treasury	100⅞	+1⅛	10.59	10.71	10.52
New 10-year "A" Financial	N/A	—	11.25	11.25	10.95
New "AA" Long utility	N/A	⅛	11.70	11.80	11.82
New "AA" Long industrial	N/A	⅛	11.55	11.65	11.45

Source: Salomon Bros (estimates).

Money Supply: In the week ended September 2 M1 rose by $1.4bn to $609.8bn. In August M2 rose by $23.3bn to $2,513bn and M3 grew by $22.4bn to $3,138bn.

Today, while the Fed remains accommodative, the picture, and *market mood, has nevertheless* changed radically. The key debate in the credit markets today is how strong the economic rebound will prove to be. While most private economists long ago dismissed Administration forecasts as overly optimistic, there is still considerable doubt.

This week a new batch of economic statistics, including the delayed Fed report on July consumer credit due out today, August housing starts on Wednesday and, most critically, the first — and often highly unreliable—"flash" report of real gross national product (GNP) growth in the third quarter, will help fill in the jigsaw puzzle and colour market views.

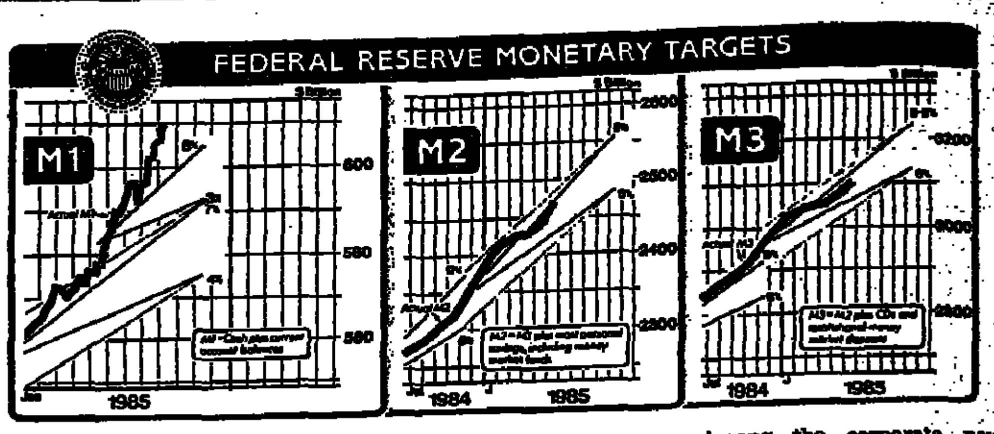
In the meantime, the credit markets harbour nagging doubts about the impact on Fed monetary policy of the soaring monetary aggregates. Last week's $1.4bn M1 jump, significantly higher than expected, pushed the basic money supply measure some $12.9bn above the top end of the current 3 to 8 per cent target range.

M1 rose at a spectacular 20.5 per cent annual rate in August, but, arguably of more significance, M2 rose at a more modest 11.2 per cent annual clip and M3, still $23.7bn below the top end of its 6 to 9.5 per cent target range, grew at a 7.9 per cent annual rate.

Concern about monetary growth may help explain why the markets have not responded more favourably to continuing evidence of steady Fed monetary accommodation and some confirmation that the economic rebound is proceeding only gradually thus far.

As Dr Henry Kaufman, Salomon Brothers' chief economist, notes: "Despite some market apprehension about the immediate course of monetary policy, indications are that the Federal Reserve is continuing to pursue a course of substantial accommodation."

Arguably the credit markets —like Fed policy, which Mr Maury Harris, chief economist of Paine Webber, describes as being "temporarily on hold"—have adopted a wait and see attitude.



Meanwhile, the U.S. market is likely to be swung more by the upcoming economic numbers, and by new Treasury supply. On Wednesday the Treasury will auction $9.25bn of two-year notes to raise $875m in fresh cash. Ahead of that, on Tuesday, the Treasury is due to announce details of its expected $17.5bn end-quarter refunding.

The refunding could further slow the pace of new corporate issues. Last week saw $1.1bn in new corporate fixed-income securities brought to market, according to First Boston figures, bringing the total so far this year to $88.1bn, a relatively modest 6 per cent more than in the same period last year.

Corporate bond prices rose by about ⅝ of a point on the week while new issue yields were *generally unchanged to* 13 basis points lower for medium-term issues and 13 to 25 basis points lower for long maturities.

Among the corporate new issues Control Data sold $200m of 10-year 14.75 per cent notes priced to yield 14.991 per cent, and Texas Eastern Transmission sold $150m of 25-year 12 per cent debentures at par. The Asian Development Bank issued the first ever yen-denominated security in the yankee market, a Y35bn offering of 10-year 6.5 per cent paper priced to yield 6.57 per cent.

Paul Taylor

UK GILTS

Cold comfort from M3 growth explanations

NOWADAYS the disclaimers flash up on the Reuter screen almost simultaneously with the actual figures. But the Treasury's well-practised skills in explaining away the rapid growth in sterling M3 did not save the gilt-edged market from a jolt last week.

Taken with the pound's reversal the previous day, the news on Tuesday that sterling M3 had grown by 2 per cent in August left gilts with losses ranging from ⅜ to 1 point.

Only about half of that was recouped during sterling's strong performance on Friday, when foreign exchange markets decided that the recent euphoria over the outlook for U.S. growth had been overdone.

Despite the official disclaimers, the apparent message from the rise in sterling M3, which pushed its annual growth rate over the last six months to 16¾ per cent, was that the long-awaited cut in base rates would be further delayed.

That message was reinforced by renewed uncertainties in the oil market ahead of the Opec meeting early next month.

The Treasury now shows little conviction in outlining month-by-month "distortions" to sterling M3.

The official doubts about the signals being given by the measure are more fundamental.

The first is that, as deregulation and high real interest rates have made cash more attractive as a financial asset, the nature of sterling M3 has changed. It is increasingly less a measure of money than of liquidity.

That tendency has accelerated this year as the banks have registered considerable success in bidding back deposits from the building societies.

In the six months to February, for example, the banks' interest-bearing retail deposits were growing by an annual 7.4 per cent a year but by July that figure had risen to 19.9 per cent.

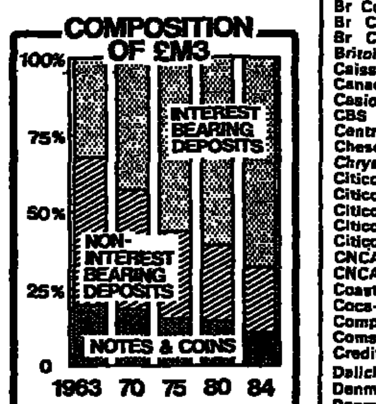
The official argument then is that it is the upward shift in the demand for money that has pushed up sterling M3, and this is not a harbinger of higher inflation.

It is a view fairly readily accepted in the gilt-edged market so long as officials can point to high real interest rates, a steady exchange rate, and falling inflation as evidence that monetary policy is relatively tight.

But the official approach nonetheless tends to create confusion—witness the immediate reaction to Tuesday's figures.

If sterling M3 is giving the wrong signal, then why do the authorities insist on keeping it as an official target, or why do they not follow the American example and rebase it?

The fact that the authorities are not ready to completely disown it creates the uneasy feeling that even if the measure's growth rate is not immediately relevant it could be saying something about dangers ahead.



That sentiment is reinforced by the pace of bank lending. The Treasury says that it is concerned about money, not credit, but the majority in the gilt-edged market believe that ever-rising bank lending must have some relevance to future developments in the economy.

Philip Stephens

FT/AIBD INTERNATIONAL BOND SERVICE

U.S. DOLLAR STRAIGHTS	Issued	Price	Chg. on week	Yield
AHFC O/S Fin 11⅛ 94	100	103⅝	−1⅛	11.01
AIDC 11 90	75	[illegible]	[illegible]	10.00
AIDC 11⅞ 90	[illegible]	[illegible]	[illegible]	11.42
Amer Savings 12 89	[illegible]	[illegible]	[illegible]	11.10
Amer Savings 12⅞ 89	[illegible]	[illegible]	[illegible]	11.54
Asian Dev Bk 11⅛ 93	[illegible]	[illegible]	[illegible]	10.78
Australia 11⅝ 90	[illegible]	[illegible]	[illegible]	10.10
Australia 11⅛ 95	[illegible]	[illegible]	[illegible]	10.84
Australia 11⅝ 95	[illegible]	[illegible]	[illegible]	10.60
Austria 15 89	[illegible]	[illegible]	[illegible]	10.16
Ave Pacific 13⅝ 91	[illegible]	[illegible]	[illegible]	11.46
Bk Nova Scotia 11⅛ 87	[illegible]	[illegible]	[illegible]	9.92
Bank (Canada) 14⅞ 92	[illegible]	[illegible]	[illegible]	10.98
Bank of Tokyo 13⅛ 91	[illegible]	[illegible]	[illegible]	10.79
Bank of Tokyo 13⅞ 89	[illegible]	[illegible]	[illegible]	10.65
Bergen Bank 11⅝ 90	[illegible]	[illegible]	[illegible]	11.02
BP Capital 11⅛ 92	[illegible]	[illegible]	[illegible]	10.57
Br Col Hydro 11⅝ 93	[illegible]	[illegible]	[illegible]	10.69
Br Col Hydro 12⅛ 14	[illegible]	[illegible]	[illegible]	11.96
Br Col Hydro 12⅝ 13	[illegible]	[illegible]	[illegible]	12.09
British Fin 11⅞ 90	[illegible]	[illegible]	[illegible]	10.96
[illegible]	[illegible]	[illegible]	[illegible]	10.89
Canada 10⅞ 88	[illegible]	[illegible]	[illegible]	9.79
Casio Computer 5⅝ 89	[illegible]	[illegible]	[illegible]	10.21
CBS Inc 11⅛ 92	[illegible]	[illegible]	[illegible]	11.08
[illegible]	[illegible]	[illegible]	[illegible]	12.12
Chesebrough 12 93	[illegible]	[illegible]	[illegible]	11.52
Chrysler Fin 13⅞ 89	[illegible]	[illegible]	[illegible]	12.09
Citicorp O/S 10⅛ 90	[illegible]	[illegible]	[illegible]	10.52
Citicorp O/S 11⅞ 90	[illegible]	[illegible]	[illegible]	10.94
Citicorp 11⅛ 92	[illegible]	[illegible]	[illegible]	11.23
Citicorp 11⅞ 97	[illegible]	[illegible]	[illegible]	11.60
Citicorp O/S 14 94	[illegible]	[illegible]	[illegible]	13.36
CNCA 11⅛ 92	[illegible]	[illegible]	[illegible]	10.83
CNCA 13⅛ 91	[illegible]	[illegible]	[illegible]	10.75
Coastled Int 12⅛ 88	[illegible]	[illegible]	[illegible]	10.78
Coca-Cola 11⅛ 88	[illegible]	[illegible]	[illegible]	9.83
Comp Bancaire 13⅛ 90	[illegible]	[illegible]	[illegible]	11.27
Comset Int 12⅛ 91	[illegible]	[illegible]	[illegible]	11.37
Creditanstalt 13⅛ 91	[illegible]	[illegible]	[illegible]	11.08
Daiichi Kangyo 12⅞ 90	[illegible]	[illegible]	[illegible]	10.85
Denmark 10⅜ 92	[illegible]	[illegible]	[illegible]	10.91
Denmark 11⅝ 92	[illegible]	[illegible]	[illegible]	10.94
Denmark 11⅛ 90	[illegible]	[illegible]	[illegible]	12.41
Denmark 13 92	[illegible]	[illegible]	[illegible]	12.57
Denmark 13⅜ 91	[illegible]	[illegible]	[illegible]	10.95
Denmark 13⅝ 86	[illegible]	[illegible]	[illegible]	10.48
Denmark 14 91	[illegible]	[illegible]	[illegible]	11.81
Digital Equip 11⅝ 89	[illegible]	[illegible]	[illegible]	10.41
Dutch St Mines 11⅞ 91	[illegible]	[illegible]	[illegible]	10.81
Exportfinans 11⅝ 90	[illegible]	[illegible]	[illegible]	10.70
Elec de France 11⅛ 93	[illegible]	[illegible]	[illegible]	10.69
Elec de France 12⅞ 87	[illegible]	[illegible]	[illegible]	10.68
EEC 11 87	[illegible]	[illegible]	[illegible]	9.72
EEC 11⅞ 90	[illegible]	[illegible]	[illegible]	9.64
EEC 12 93	[illegible]	[illegible]	[illegible]	10.42
EIB-Agolines 10⅛ 89	[illegible]	[illegible]	[illegible]	10.68
Ericsson L M 10⅜ 88	[illegible]	[illegible]	[illegible]	10.81
Euro Inv Bk 11⅛ 90	[illegible]	[illegible]	[illegible]	10.81
Euro Inv Bk 11⅛ 91	[illegible]	[illegible]	[illegible]	10.48
Euro Inv Bk 12⅞ 90	[illegible]	[illegible]	[illegible]	11.26
Euro Inv Bk 12½ 90	100	107⅛	−0⅛	10.27
EDC 9⅞ 88	200	100⅛	−0⅜	9.94
EDC 10 88	125	100⅛	0	9.77
EDC 10⅜ 88	100	101⅛	−0½	9.88
EDC 11⅛ 89	150	102⅝	−0½	10.13
EDC 12 89	100	105⅛	−0⅜	10.20
EDC 13⅜ 87	100	106⅞	−0⅛	9.65
Fed Dep Store 11 90	100	101⅛	−1⅛	10.48
Finland 11½ 88	100	102⅞	−0⅜	10.01
Finland 12⅜ 94	75	107⅛	−1⅛	10.94
Finnish Export 12⅜ 87	75	105⅛	−0⅜	9.93
Firstfed Mich 1 13⅜ 89	125	105⅝	−0⅛	11.40
Florida Fed 12⅝ 89	100	103⅛	−0⅛	11.24
FNMA 11½ 91	300	102⅛	−0⅞	10.96
Gen Elec Cred 0 96	600	32⅛	−0⅜	10.98
Gen Elec Cred 9⅝ 91	100	96⅛	−1	10.18
Gen Elec Cred 10⅛ 90	200	99⅞	−0⅜	10.37
Gen Elec Cred 11 91	200	102⅛	−1⅛	10.40
Gen Elec Cred 11½ 87	200	103	−0⅛	11.06
Gen Elec Cred 12 94	200	104⅛	+0⅜	11.22
Gen Foods Cap 11½ 90	75	103⅛	−0⅜	10.50
General Mills 12 91	100	103⅛	+0⅛	11.25
GMAC 10 88	200	100⅛	−0½	9.88
Gen Motors Acc 10⅛ 90	200	100⅛	−0⅜	10.43
Gen Motors Acc 11⅛ 90	100	102⅞	−1	10.60
Gen Motors Acc 13 86	200	103⅛	+1½	8.50
GTE Finance 12 96	75	101⅛	−0⅛	11.74
Gulf Oil 10⅛ 94	100	99½	+0⅛	10.32
Gulf Oil 12⅜ 85	100	101⅛	−0⅜	6.34
GZB 14 91	100	110⅛	−0⅞	11.40
Holl Air Fin 12⅛ 91	100	103⅛	−0⅜	11.37
Household Fin 11⅛ 92	100	101⅛	−0⅞	11.19
IBM 9⅜ 88	200	99⅛	−0½	9.71
IBM (WTC) 10⅜ 89	300	100⅜	−0⅜	10.26
IBM Credit 11 89	100	103⅛	−0⅜	10.03
IBM Credit 13⅛ 87	100	102⅛	−0⅜	13.07
IBM 12⅛ 92	200	106⅞	−1	10.80
Ind Bk Japan 10⅜ 92	100	103⅛	−0⅜	10.04
Ind Bk Japan 10⅞ 95	100	105⅛	+0⅜	9.97
Ind Bk Japan 11½ 89	125	103	−0⅜	10.37
Ind Bk Japan 11⅞ 91	100	107⅛	−0⅞	10.24
Ind Bk Japan 13⅞ 91	125	112⅛	+0⅜	10.78
Int-Amer Dev 12⅜ 91	150	107⅞	−1⅛	10.91
Int-Amer Dev 11⅝ 94	200	103⅛	−0⅞	11.28
Int Paper 12 91	75	103⅜	−0⅞	11.05
Int Stand Elec 0 97	112	26½	+0⅛	12.24
Int Stand Elec 12 96	75	101⅞	+0⅜	11.55
ITT 11½ 89	125	104½	0	10.11
ITT Fin 12⅜ 94	100	105⅛	−0⅛	11.32
Japan Airlines 12½ 94	70	108⅜	−2½	10.85
Japan Dev Bk 11⅞ 91	100	108⅞	+0⅛	10.47
Kellogg Co 10⅞ 90	100	101⅛	−1	10.38
Kellogg Co 11⅛ 92	100	102⅛	−1⅛	10.63
Kimberley-Clark 12 94	100	106⅞	−1	10.77
Kyowa Fin HK 12⅞ 90	100	108½	−0⅜	10.98
Long Term Cred 10⅛ 90	100	100⅛	−0⅞	10.61
Long Term Cred 11 90	100	101⅛	−0⅞	10.56
Long Term Cred 11⅞ 89	100	103⅝	−1	10.66
Long Term Cred 12 90	75	105⅛	0	10.42
Long Term Cred 12 93	100	106	−1⅛	10.84
Macy R H 11⅞ 91	100	103½	−1⅛	10.85
Macy R H 11⅜ 95	100	103⅛	−1	11.15
Marubeni 11⅛ 91	100	107	+0⅜	11.12
McDonalds Fin 11⅛ 94	75	102½	−0⅜	11.12
Merrill Lynch 12½ 94	100	103⅛	−0⅛	11.79
Minebea 6⅜ 89	100	134½	−1⅛	−3.06
Mitsubishi 5⅜ 88	100	104½	−0⅜	4.25
Mitsubishi Cp 10½ 92	100	100⅜	+1⅞	10.31
Mitsubishi Cp 10⅜ 95	200	100⅛	−0⅜	10.56
Mitsubishi Cp 12⅜ 91	100	108⅛	−0⅜	10.32
Mitsui Eng 7⅛ 88	50	101⅛	+0½	6.78
Mitsui Fin 12⅜ 92	100	100⅛	0	12.04
Mitsui Tst Fin 12 91	100	104	−1	10.94
Mobil Corp 10⅛ 90	200	100⅛	−0⅛	10.19
Montreal City 12½ 91	70	106½	−0⅜	10.83
Mgn Guaranty 12⅛ 89	150	105	−0⅜	10.47
Morgan J P 11⅛ 92	100	101⅜	−1⅛	10.85
Mount Isa Fin 13⅜ 87	100	105⅝	−0⅜	10.49
Ned Gasunie 11⅛ 90	75	102⅜	−0½	10.51
Ned Gasunie 11⅜ 91	75	102⅛	−0½	10.56
N Eng Lf Mig 11⅜ 95	149	104⅛	−1⅛	11.00
Newfoundland 13 91	75	107⅞	−0⅜	11.09
Nippon Crd Bk 13⅞ 89	100	109	−0½	10.84
Nippon Tel Tel 11⅛ 90	100	106⅞	−0⅜	9.82
Nippon Tel Tel 13 19/32 94	150	113	0	10.63
Nissho-Iwai 6⅜ 89	70	99	+0⅜	6.82
Nomura 6⅜ 88	100	157⅛	+1½	−8.84
Nova Scotia 11⅛ 91	100	104½	−0½	10.64
Nova Scotia 11⅜ 99	100	104⅞	−0⅞	11.05
Oester Post 12⅜ 89	75	104⅝	−0⅜	10.58
Ohbayashi-Gumi 7⅜ 89	50	166⅞	+12	−7.63
Ontario Hydro 11⅝ 94	200	105⅛	−1⅛	10.60
Ontario Hydro 11⅜ 90	200	105½	−0⅜	10.29
Ontario 12½ 94	250	109½	+2⅜	11.06
Pacific Gas & El 12 00	75	103⅛	−1	11.49
Penney J C 11⅞ 90	100	103½	−0⅜	10.86
Penney J C 12⅜ 91	100	106⅞	−0⅛	11.12
Phillips Petrol 14 89	200	103⅝	0	12.71
Postipankki 11⅛ 90	75	101⅛	−0½	10.88
Post-Och Kred 13½ 87	60	105½	−0½	10.10
Privatbanken 12⅜ 95	100	99	0	12.90
Prudential Ins 12⅜ 87	150	105½	−0⅜	9.69
Pru Rlty Secs 0 89	365	23½	−0⅜	11.47
Pru Rlty Secs 11⅞ 92	386	103⅛	−0⅜	10.90
Pru Rlty Secs 12⅛ 95	548	106⅝	−1⅛	10.95
Quebec Prove 12⅛ 94	150	107⅝	−1⅛	11.03
Queensland Gvt 11⅛ 89	100	103⅛	−0½	
RBC 12⅜ 90	100	101⅞	−0⅛	12.12
Rural Bk Aust 12 91	50	103	0	11.19
Sanwa Bank 11⅞ 92	150	103⅛	−1⅛	10.91
Saskatchewan 10⅜ 92	100	100½	−1⅛	10.61
Saskatchewan 10⅛ 90	125	101⅞	−0⅜	10.17
Saskatchewan 11⅞ 89	100	104⅛	−0⅞	10.39
Saskatchewan 15 92	150	118⅜	−1	10.98
Saskatchewan 16 88	125	115	−0⅜	10.58
Scot Int Fin 14⅛ 96	50	111	0	12.32
Sears O/S Fin 0 98	500	24⅝	−0⅜	11.54
Sears Roebuck 10½ 91	150	99	−1⅛	10.72
Sears Roebuck 11⅝ 91	150	104⅛	−1	10.52
Sec Pacific 12 92	100	104⅛	−1⅛	10.90
Shearson/Amex 12⅛ 94	100	103⅞	−0½	11.38
Shell (Canada) 14⅛ 92	125	110⅛	−1⅛	11.99
Signal Comps 11⅜ 92	125	102½	−1⅛	11.15
Standard Oil 10⅛ 89	150	100	−0⅜	10.46
Statoil 12 88	100	104⅛	−0⅜	9.84
Sumitomo Corp 10⅝ 92	100	99½	−0½	10.71
Sumitomo Fin 11⅛ 92	150	103⅛	−1⅛	10.96
Sumitomo Fin 12⅜ 91	150	106⅛	−1⅛	11.07
Sumitomo Trust 12½ 92	100	106⅞	0	10.92
Sweden 11½ 89	200	103½	−0⅜	10.41
Sweden 12⅜ 89	200	105⅛	−0⅜	10.38
Swedish Export 10⅜ 88	100	101⅛	−0⅜	10.50
Swedish Export 11½ 89	100	103⅛	−0½	10.31
Swedish Export 12⅜ 89	100	104⅞	0	11.17
Taiyo Kobe 11⅞ 90	100	103⅛	−0⅞	10.94
Taiyo Kobe 12 90	100	103⅜	−1	10.99
Tenneco Intnl 11½ 89	150	102⅛	−0⅜	10.62
Texaco Capital 10⅛ 90	200	99⅛	−0⅞	10.84
Texaco Capital 10½ 93	200	100⅛	0	10.44
Texaco Capital 13½ 89	200	108½	−0⅛	10.69
Texas Instru 11⅞ 91	150	102⅜	−1	11.17
Tokai Asia 12⅜ 91	100	104⅛	−1	11.00
Tokyo Electric 6⅛ 89	70	94	−1	8.62
Tokyo Electric 13⅛ 89	100	105½	−1⅛	11.19
Toray Inds 11⅛ 92	50	99½	−1⅛	11.21
Toronto-Dom 12⅜ 89	50	104⅞	−0⅜	10.87
UBS 12⅜ 91	100	105⅜	+1⅛	10.82
Utd Tech 11⅛ 92	150	102⅛	−1⅛	10.71
Veba 8 93	70	142½	−0½	2.29
West LB 11⅞ 90	100	103⅛	−1⅛	11.00
West pac 12⅜ 92	41	105⅛	−0⅜	11.25
Weyerheuser 11½ 90	60	101⅛	−0⅜	11.02
World Bank 11 92	300	101⅛	−0⅞	10.81
World Bank 11⅛ 90	200	103⅝	−0⅞	10.42
World Bank 11⅜ 89	200	103⅛	−0⅜	10.19
World Bank 12 93	200	106½	−1⅛	10.75
World Bank 12⅜ 94	150	107⅞	−0⅜	10.84
World Bank 12⅞ 94	200	110⅜	−0⅜	10.93
Yasuda Trust 12⅜ 89	100	104⅛	−0⅜	10.78

FLOATING RATE NOTES	Issued	Price	Chg. on week	C.cpn
African Dev Bk ⅛ 96	100	100⅛	−0⅜	8⅛
Arab Bank Con ⅛ 96	100	100⅛	−0⅛	10 5/16
Banca Lavoro ⅛ 91	100	100½	−0⅜	9⅝
Bnco di Roma 3/16 89 CU	150	99⅜	0	7 11/16
Bnco di Roma 3/16 92 CU	75	99⅜	−0⅛	10 3/16
Bankers Tr NY ⅛ 94	200	100⅜	0	7⅞
Bank of Greece ⅛ 94	150	98⅜	−0½	8⅜
Bank Montreal ⅛ 94 £	100	100⅛	−0⅛	12 11/16
Bqe Nat Paris ⅛ 88	400	101⅛	−0⅛	8½
Bqe Nat Paris ⅛ 88	250	100⅜	−0⅜	8 21/32
Bqe Nat Paris ⅛ 96	250	100	−0⅜	8⅛
Barclays O/S ⅛†	600	100½	0	9⅜
BBL ⅛ 96	100	100⅛	−0⅛	8 9/16
BBL ⅛ 99	100	100	−0⅜	9⅛
BCI ⅛ 96	300	100	−0⅛	9⅞
BFCE ⅛ 88	500	100⅛	0	8⅛
BFCE ⅛ 99	600	100⅛	0	10 3/16
Belgium 1/16 04	400	100⅞	0	9⅜
CCCE ⅛ 05	200	100	0	8 9/16
CEPME ⅛ 96 £	100	100	−0⅛	12 11/32
Chase Manhattan ⅛ 09	400	99⅞	−0⅜	8 7/16
Chemical NY 3/16 99	300	100½	−0⅜	8⅛
Citicorp O/S ⅛ 91 £	100	99⅛	0	11 7/16
Citicorp Pen Psn ⅛ 97	250	100	+0⅛	8⅛
Caisse Nat Tel ⅛ 90	275	100⅛	0	8⅝
Commerzbank ⅛ 89	150	100⅛	−0⅜	8⅜
Creditanstalt 3/16 96	150	100⅛	0	8⅛
Credit Comm ⅛ 95	100	100½	−0⅛	9⅞
Credit Foncier ⅛ 00 £	100	100⅛	0	12⅜
Credit Lyonnais ⅛ 96	300	100½	−0⅜	8 5/16
Credit Lyonnais ⅛ 99	250	100½	+0⅛	8⅜
Credit National ⅛ 95 £	100	99⅜	−0⅛	12 7/32
Dai-Ichi Kangyo ⅛ 96	150	100⅛	0	8 23/32
Denmark ⅛ 90	250	100⅛	0	8 5/16
Denmark 0 99	200	100	0	8½
Denmark 3/16 90	500	100⅜	0	9⅜
Eldorado Nuke 0 89	100	100⅛	−0⅛	8⅛
Elec de France ⅛ 99	400	100⅞	−0⅜	8 7/16
ENEL ⅛ 93 £	100	100	−0½	12⅜
Exterior Intl ⅛ 96	125	99⅛	−0⅛	7⅞
Ferro del Stat ⅛ 88	100	100⅛	+0⅛	8½
Ferro del Stat ⅛ 99	250	100	−0⅜	8 5/16
Fiat Finance ⅛ 94	100	100⅛	+0⅛	8⅞
First Chicago ⅛ 94	100	99½	+0⅛	8 5/16
First Chicago 3/16 97	150	98⅞	−0⅜	8 7/16
Ford Motor Cr ⅛ 91	200	100⅛	−0⅛	9 11/16
GW O/S Fin ⅛ 94	100	99⅛	−0½	10⅛
Grindlays ⅛ 94	100	100⅛	−0⅛	8⅜
INI 3/16 00	150	100⅛	0	9 11/16
Interfirst Tex ⅛ 89	100	97⅛	+0⅛	8⅛
Ireland ⅛ 93 £	50	100½	0	12 11/32
Ireland 3/16 94	300	100	−0⅜	8 5/16
Ireland ⅛ 96 £	100	100⅛	+0½	12⅜
Ireland ⅛ 97	300	100⅛	−0⅛	8 7/16
Ireland 3/16 99	300	100⅛	0	10
Italy ⅛ 94	1bn	100⅛	0	8⅞
Kleinwort Benson ⅛ 96	100	100⅛	0	8⅜
Italy ⅛ 99	500	100⅛	−0⅛	10⅛
Korea Exch Bk ⅛ 94 £	100	99⅜	0	12
Lincoln S & L ⅛ 99	100	99⅞	0	8⅛
Malaysia ⅛ 93	850	100	−0⅛	8½
Malaysia ⅛ 94	600	99⅞	0	7 15/16
Man Hanover ⅛ 94 £	75	98⅛	+0½	11⅞
Marine Midland ⅛ 94	125	100⅛	0	8⅛
Marine Midland ⅛ 96	125	99⅛	−0⅛	7⅜
Marine Midland 3/16 09	150	99⅞	0	8
Mellon Bank ⅛ 96	250	100⅛	0	8⅛
Midland Intl ⅛ 96	200	100	−0⅛	8 7/16
Mitsui Fin ⅛ 96	100	100⅛	−0⅛	8 5/16
Morgan Grenfell ⅛ 94	50	99⅜	−0⅛	8 7/32
Mtg Intermed ⅛ 10 £	50	99⅜	0	12
Nat Bank Canada ⅛ 91	50	99⅛	−0⅛	8⅛
Natl Bank Detr ⅛ 96	100	99⅛	+0⅛	8⅜
Nat West Fin ⅛†	500	100⅞	−0⅜	9⅛
Neste Oy ⅛ 94	100	100	−0½	8 5/16
New Zealand ⅛ 87	350	100⅛	0	9⅜
NZ Steel Corp ⅛ 92	300	100½	0	9½
Oster Ln Bank ⅛ 99	100	100⅜	−0⅛	9⅜
Oko Bank ⅛ 92	50	99⅜	0	8 11/16
Portugal ⅛ 92	100	99⅞	0	9⅞
Queensland Coal ⅛ 96	355	100⅛	0	9
Renfe ⅛ 91	100	100⅛	−0⅛	10 3/16
Sanwa Intl Fin ⅛ 92	150	99⅞	−0⅛	8 5/16
SEAT ⅛ 93	100	101½	−1½	8 7/32
Security Pac 3/16 97	250	99⅜	0	8 5/16
Skopbank ⅛ 94	75	99⅛	0	8⅜
SNCF ⅛ 93 £	75	100⅛	−0⅛	12 7/16
Soc Generale ⅛ 95	250	100⅛	0	8½
Soc General ⅛ 94	250	100⅛	−0⅜	10 5/16
Spain ⅛ 93	200	100⅛	−0⅛	8 9/16
Spain ⅛ 97	250	100	−0⅜	8⅝
Standard Chart ⅛ 94	200	100⅛	0	8⅜
Sumitomo Trust ⅛ 94	100	100⅛	−0⅛	8 7/16
Sweden ⅛ 99	500	99⅜	−0⅜	9½
Sweden ⅛ 03	1bn	100⅛	0	8⅜
Sweden ⅛ 90	700	99⅜	−0⅛	7 23/32
Sweden ⅛ 24	500	100⅛	+0⅛	10 1/16
Sweden ⅛†	750	100⅛	0	8 5/16
Tokia Asia ⅛ 99	150	100⅛	−0⅛	8⅜
Toyo Trust Asia ⅛ 99	100	100⅛	0	8
TVO Power ⅛ 04	100	98½	0	8 1/16
Union Bank-Norw ⅛ 98	50	98⅛	+0½	8 7/16
Wells Fargo 3/16 96	50	99⅜	0	8⅜
World Bank 11/32 94	250	98⅞	−0½	7 21/32
Yorkshire Int ⅛ 94 £	75	100⅛	0	12⅜

CONVERTIBLE BONDS	Issued	Price	Chg. on week	Prem.
Ajinomoto 3 99	120	106⅛	−8½	
Best Denki 5⅞ 97	15	161	0	−5.65
Canon 7 97	60	171	+11⅛	−2.36
Daiwa Secs 5½ 98	80	190	+1	−4.45
Dev Bank Sing 5½ 98	70	71	+1	28.83
Elders 11½ 94	160	105⅛	+0⅛	28.59
Elektrowatt 5 98	52	102⅞	−1⅛	−2.70
Fujitsu 3 99	180	82⅛	+3⅜	12.61
Intec Inc 3 99	50	56	−4	−2.74
Kumagi Gumi 3½ 00	80	151	+3⅛	−0.32
LASMO 9⅜ 99	45	95⅛	−0⅛	16.77
Moet-Hennessey 7 99	50	107⅛	−0⅜	1.60
Murata Mfg 3½ 00	100	90½	+4⅜	10.59
Nippon Oil 3⅜ 99	50	94	−2	29.66
Ono Pharm 3⅜ 98	60	84½	+0⅛	−2.47
Soc Gen Surv 4½ 94	51	117	−0⅜	112.36
Sumitomo Corp 2⅞ 99	70	116½	+0½	4.32
Texaco Capital 11⅞ 94	1bn	104½	−0⅜	[illegible]
Texaco Capital 11⅛ 94	500	104⅛	−0⅜	[illegible]
Tsugami Corp 3⅜ 00	20	86	0	−4.71
Yamaichi Sec 3⅜ 95	20	138	0	−3.54

YEN STRAIGHTS	Issued	Price	Chg. on week	Yield
Asian Dev Bk 7⅛ 94	15	103⅛	+0⅛	6.84
Avon Products 6⅜ 91	26	96⅞	+0⅛	6.97
Danmark 6⅝ 92	20	100⅛	+0⅜	6.69
Dow Chemical 7 94	50	101⅛	+0⅛	6.82
EDF 6⅞ 95	20	101⅛	+0⅛	6.70
Eurofina 7½ 94	10	103⅛	+0⅛	6.67
Eurofina 6⅝ 92	10	100	+0⅛	6.73
FNMA 6⅞ 92	50	100⅛	−0⅛	6.79
GMAC 6½ 90	25	100½	+0⅛	6.36
Intel 6⅝ 92	13	98	+0⅛	7.01
IADB 7½ 94	15	102⅞	−0⅜	7.08
IADB 7⅞ 93	15	104⅝	+0⅛	7.15
ITT 6⅜ 92	20	98⅛	+0⅛	7.01
McDonald Corp 6½ 92	25	99⅛	+0⅛	[illegible]
New Zealand 7⅛ 90	15	102½	+0⅛	6.53
New Zealand 7⅜ 89	15	103⅛	+0⅛	6.57
Pacific Gas & El 7 94	20	102⅛	+0⅛	[illegible]
Penney J C 6⅜ 92	28	99⅜	+0⅛	6.79
Proctor 6⅝ 92	25	100⅛	+0⅛	6.47
Sallie Mae 6⅝ 92	25	99⅛	+0⅛	[illegible]
TRW 7 94	15	101⅛	+0⅛	[illegible]
Utd Technology 6⅛ 92	25	100	+0⅛	6.62
World Bank 7 94	20	102	+0⅛	[illegible]
World Bank 7⅛ 93	20	105⅛	0	[illegible]
World Bank 8 93	20	106⅛	0	6.61

LUXFR STRAIGHTS	Issued	Price	Chg. on week	Yield
ASEA 9⅜ 89	600	102½	0	[illegible]
Eurofima 10 94	600	103⅞	0	9.38
E Coal & Steel 10½ 94	1bn	103⅛	+0⅛	9.71
Euro Invest Bk 10½ 94	1bn	106	0	9.42
World Bank 10⅛ 89	1bn	103	0	9.24

GUILDER STRAIGHTS	Issued	Price	Chg. on week	Yield
ABN 8 89	200	105⅛	−0⅛	[illegible]
ABN 7⅜ 89	150	105⅛	0	[illegible]
Amro Bk 7⅛ 89	150	103⅛	+0⅛	[illegible]
Amro Bk 8 89	200	104½	+0⅛	[illegible]
Bk Mees & Hope 8⅜ 89	100	105⅛	+0½	[illegible]
Beatrice Foods 8⅛ 89	100	106⅜	0	[illegible]
C C Rabo 8 89	150	105	+0⅛	[illegible]
Denmark 8½ 91	100	108	+0½	[illegible]
Int Stand Elec 8½ 89	100	105⅜	+0⅛	[illegible]
New Zealand 8⅛ 89	100	105⅛	0	[illegible]

CANADIAN DOLLAR STRAIGHTS	Issued	Price	Chg. on week	Yield
Amex 12⅛ 91	50	104⅛	−0⅛	[illegible]
Aust Resources 11⅝ 92	50	102⅛	−1⅛	[illegible]
Bank of Tokyo 10⅞ 92	75	102⅛	−0⅛	[illegible]
Bqe l'Indosuez 14 91	75	109½	−1	[illegible]
Br Col Munic 12⅜ 91	100	105⅜	−0⅜	[illegible]
Br Col Munic 13½ 91	100	108⅛	−2⅜	[illegible]
Br Col Tele 12⅛ 89	70	102	−0½	[illegible]
Denmark 11⅛ 91	100	102	−0⅜	[illegible]
Farm Cred Corp 12⅜ 90	75	104½	−0⅞	[illegible]
Kredietbank 12 92	75	103	−0⅞	[illegible]
Long Term Cred 11⅜ 90	75	102⅛	−1⅛	[illegible]
Montreal City 12⅛ 91	50	104⅛	−0⅛	[illegible]
New Brunswick 12 95	75	103	−1	[illegible]
Nova Scotia 11⅛ 95	100	99⅞	−1⅛	[illegible]
Quebec Hydro 14 91	75	108⅛	−0⅛	[illegible]

ECU STRAIGHTS	Issued	Price	Chg. on week	Yield
ABN 9½ 92	100	103½	−0⅛	[illegible]
Australia & NZ 10⅜ 91	50	105	+0⅛	[illegible]
Austria 10⅝ 93	100	107⅛	−0⅜	[illegible]
BFCE 9⅜ 92	75	104	−0½	[illegible]
Cred National 10⅜ 94	50	107⅛	+0⅛	[illegible]
Cred National 11⅛ 91	50	108	−0⅜	[illegible]
Denmark 10⅜ 91	75	107⅛	+0⅛	[illegible]
Ebco Intl 10⅞ 89	55	104⅛	+0⅛	[illegible]
EEC 10½ 91	60	103⅛	−1⅛	[illegible]
EEC 11 93	50	108⅛	−0⅛	[illegible]
EEC 11⅛ 91	50	106⅛	−0⅛	[illegible]
EEC 11⅛ 93	70	109⅛	−0½	8.73
Euro Coal & Steel 6 94	60	120⅛	+0⅛	[illegible]
Euro Invest Bk 9⅜ 95	200	102⅛	−0⅛	[illegible]
Euro Invest Bk 10⅜ 94	100	106⅜	−0⅛	[illegible]
Euro Invest Bk 10⅜ 89	50	106⅛	−0⅜	[illegible]
Euro Invest Bk 10⅝ 94	100	107⅞	−0½	[illegible]
Euro Invest Bk 11½ 92	75	110½	−0⅛	[illegible]
Euro Invest Bk 11⅛ 93	50	109⅛	+0⅛	[illegible]
Euro Invest Bk 11⅛ 96	50	111⅛	−0⅛	[illegible]
Gen Finance 11 90	70	107⅜	−0⅜	[illegible]
Giro Vienna 10½ 93	60	107½	−0⅛	[illegible]
GTE Finance 10⅞ 92	50	109⅛	+0⅛	[illegible]
Ireland 10⅜ 95	50	104⅛	−0⅜	[illegible]
Italian Govt 10½ 92	600	106⅛	−0½	[illegible]
Italian Treas 11½ 90	60	106⅛	−1⅞	[illegible]
Kredietbank L 9⅜ 92	75	102⅜	−0⅜	[illegible]
Megal Finance 11⅛ 94	100	107⅞	−0⅜	[illegible]
Nippon Cred Bk 11 91	50	107⅞	−0⅜	[illegible]
Nordic Inv 6 94	50	119⅛	−0½	[illegible]
Post Och Kred 10⅞ 92	50	106	+0⅛	[illegible]
Royal Bk Can 10½ 89	85	105⅜	−0⅛	[illegible]
SNCI 10⅞ 94	60	107⅝	−0⅜	[illegible]
Swedish Export 11 89	68	103½	−0⅛	[illegible]
West LB 10⅞ 91	50	106⅝	−0⅜	[illegible]
World Bank 10⅜ 88	100	107⅛	0	[illegible]

AUSTRALIAN DOLLAR STRAIGHTS	Issued	Price	Chg. on week	Yield
Nat Aust Bk 12½ 89	40	95	−0½	14.30
PIBA 12⅛ 89	50	97⅛	−0½	13.14
State Bk NSW 12⅛ 89	40	97	−1⅛	13.30
Woolworths 14⅛ 88	25	102	−1	[illegible]

STERLING STRAIGHTS	Issued	Price	Chg. on week	Yield
BAT Intnl 10⅜ 91	100	98⅛	−0½	11.01
Denmark 10⅜ 89	75	98⅞	−0⅛	11.10
EEC 11⅛ 94	50	101½	−0½	11.06
Europarat 11⅛ 92	50	100⅞	−0⅛	11.15
Euro Invest Bk 10⅜ 92	75	98⅜	−0⅛	10.92
Finland 11⅞ 88	50	102⅛	+0⅛	10.90
Grand Met 10⅞ 90	50	98½	−0⅛	11.28
Int-Amer Dev 11⅜ 91	60	100⅛	−0⅛	11.15
Int Stand Elec 11⅜ 89	50	99½	−0⅛	11.28
Inv In Indust 11½ 91	50	103⅛	−0⅛	10.76
Ireland 11⅛ 94	50	100½	−0⅛	11.25
New Zealand 10⅛ 89	100	98½	−0⅛	11.10
SNCF 11⅛ 94	60	101	−0⅛	11.04
World Bank 10⅜ 89	100	99⅜	−0⅛	10.87
World Bank 10⅛ 89	50	99⅜	−0⅛	10.71
World Bank 11 94	50	99⅞	−0⅛	11.00

EQUITY WARRANTS	Expiry date	Price	Chg. on week	Prem.
Commerzbank DM	31/5/88	59	0	7.23
Ciba-Geigy Int £	1/11/93	336	+30½	171.47
Credit Suisse	31/5/88	41⅛	+1⅛	1.63
Deutsche Bank DM	18/6/91	121½	0	−22.23
ICI Finance	1/8/90	262½	−7⅛	194.80
IC Industries	15/6/88	15	0	−11.54
Jusco	22/12/88	91	+4⅛	26.39
Minebea Co	20/2/89	48	−3⅛	42.88
Mitsubishi Cp	7/11/88	30⅛	+0⅞	16.45
Mitsui	10/12/87	27⅛	+2⅜	−10.95
Nissho Iwai	1/2/89	11⅛	−1⅛	29.36
Nomura Sec	31/10/88	75⅛	+3⅛	9.05
Siemens Wstn DM	31/5/90	340	0	2.51
Swiss Bank Cpn	20/12/88	62	−0⅛	7.74
Toray Ind	5/3/87	26⅛	+9⅛	7.49
Veba Intnl	15/12/93	57	0	11.14

BOND WARRANTS	Expiry date	Price	Chg. on week	Ex. yield
Aegon Ins 11⅛ 91	14/2/88	24⅛	−4⅞	10.71
Coca-Cola 11⅛ 91	28/11/88	37⅛	−5⅞	11.18
Commerzbk 11⅛ 89	17/7/88	96⅛	−3⅛	31.28
Du Pont 13⅜ 89	25/6/88	77⅛	−4⅛	10.72
Ekebortfinas 13⅛ 89	15/9/87	79	−6	10.72
Gen Elec 12⅜ 91	7/8/87	62⅞	−2⅜	11.22
Ind Bk Jpn 12⅞ 91	5/10/89	77⅛	−5⅛	11.06
Inv In Ind 10½ 91	1/12/88	87	−3	10.09
McDnlds F 11⅛ 94	5/1/89	36⅛	−3⅛	10.42
Oester Inbk 13½ 89	9/8/87	78⅛	−5⅜	10.91
Texaco Cap 12⅞ 92	1/9/87	56⅛	−6⅛	11.69
Trnto Dom 12½ 91	5/4/88	50⅛	−5	11.30

STRAIGHT BONDS: Yield to redemption of the mid-price. Amount issued is expressed in millions of currency units except for yen bonds, where it is in billions.
FLOATING RATE NOTES: U.S. dollars unless indicated. Margin above six-month offered rate (‡ three-month; § above mean rate) for U.S. dollars. C.cpn=current coupon.
CONVERTIBLE BONDS: U.S. dollars unless indicated. Prem=percentage premium of the current effective price of buying shares via the bond over the most recent share price.
WARRANTS: Equity warrant prem=exercise premium over current share price. Bond warrant ex yld=exercise yield at current warrant price.
† Perpetual.

 Closing prices on September 13.

All of these Securities have been offered outside the United States.
This announcement appears as a matter of record only.

New Issue / June, 1985

U.S. $100,000,000

The Export-Import Bank of Japan

10⅜% Guaranteed Bonds Due June 1995

Unconditionally and irrevocably guaranteed as to payment of principal and interest by

Japan

Salomon Brothers International Limited | **Nippon Credit International (HK) Ltd.**

Bank of Tokyo International Limited
Banque Paribas Capital Markets
Credit Suisse First Boston Limited
Daiwa Europe Limited
Deutsche Bank Aktiengesellschaft
Goldman Sachs International Corp.
IBJ International Limited
Kleinwort, Benson Limited
Morgan Guaranty Ltd
Morgan Stanley International
The Nikko Securities Co., (Europe) Ltd.
Swiss Bank Corporation International Limited
Union Bank of Switzerland (Securities) Limited
S. G. Warburg & Co. Ltd.

All of these Securities have been offered outside the United States.
This announcement appears as a matter of record only.

New Issue/August, 1985

U.S. $100,000,000

Kyowa Finance (Hong Kong) Limited

(Incorporated in Hong Kong with limited liability)

10½% Guaranteed Notes Due 1992

Payment of principal and interest unconditionally guaranteed by

The Kyowa Bank, Ltd.

(Kabushiki Kaisha Kyowa Ginko)
(Incorporated in Japan with limited liability)

Kyowa Bank Nederland N.V. | **Salomon Brothers International Limited**
Morgan Stanley International | **Shearson Lehman Brothers International**

Berliner Handels- und Frankfurter Bank
Chase Manhattan Capital Markets Group
Chemical Bank International Limited
Citicorp Investment Bank Limited
Daiwa Europe Limited
Handelsbank N.W. (Overseas) Limited
E F Hutton & Company (London) Ltd
Merrill Lynch Capital Markets
The Nikko Securities Co., (Europe) Ltd.
Nomura International Limited
Svenska Handelsbanken Group
Swiss Bank Corporation International Limited
Yamaichi International (Europe) Limited

All of these Securities have been offered outside the United States.
This announcement appears as a matter of record only.

New Issue / August, 1985

U.S. $100,000,000

Taiyo Kobe Finance Hongkong Limited

(Incorporated with limited liability in Hong Kong)

Guaranteed Floating Rate Notes Due 1997

Guaranteed as to payment of principal and interest by

The Taiyo Kobe Bank, Limited

(Kabushiki Kaisha Taiyo Kobe Ginko)
(Incorporated with limited liability in Japan)

The Taiyo Kobe Bank (Luxembourg) S.A. | **Salomon Brothers International Limited**
Credit Suisse First Boston Limited | **Shearson Lehman Brothers International**

Chemical Bank International Limited
Citicorp Investment Bank Limited
Crédit Commercial de France
Crédit Lyonnais
Daiwa Europe Limited
First Chicago Limited
Kleinwort, Benson Limited
Manufacturers Hanover Limited
Merrill Lynch Capital Markets
Samuel Montagu & Co. Limited
Morgan Guaranty Ltd
The Nikko Securities Co., (Europe) Ltd.
Nomura International Limited
Svenska Handelsbanken Group
Swiss Bank Corporation International Limited
Toyo Trust International Limited
Dean Witter Capital Markets-International
Yamaichi International (Europe) Limited

All of these Securities have been offered outside the United States.
This announcement appears as a matter of record only.

New Issue / August, 1985

U.S. $100,000,000

Yasuda Trust and Finance (Hong Kong) Limited

(Incorporated with limited liability in Hong Kong)

10½% Guaranteed Notes Due 1995

Guaranteed as to payment of principal and interest by

The Yasuda Trust and Banking Company, Limited

(Yasuda Shintaku Ginko Kabushiki Kaisha)
(Incorporated with limited liability in Japan)

Yasuda Trust Europe Limited | **Salomon Brothers International Limited**
Citicorp Investment Bank Limited | **Credit Suisse First Boston Limited**

Algemene Bank Nederland N.V.
Bank Brussel Lambert N.V.
Banque Paribas Capital Markets
Baring Brothers & Co., Limited
Chemical Bank International Limited
County Bank Limited
Daiwa Europe Limited
Deutsche Bank Aktiengesellschaft
Dresdner Bank Aktiengesellschaft
Goldman Sachs International Corp.
Kidder, Peabody International Limited
Merrill Lynch Capital Markets
Morgan Grenfell & Co. Limited
Morgan Guaranty Ltd
Morgan Stanley International
The Nikko Securities Co., (Europe) Ltd.
Nomura International Limited
Orion Royal Bank Limited
Shearson Lehman Brothers International
Svenska Handelsbanken Group
Swiss Bank Corporation International Limited
Union Bank of Switzerland (Securities) Limited
S. G. Warburg & Co. Ltd.
Westdeutsche Landesbank Girozentrale
Wood Gundy Inc.
Yamaichi International (Europe) Limited

INTERNATIONAL CAPITAL MARKETS AND COMPANIES

CORPORATE FINANCE

Hanson gets its hands tied in a courtroom

AT 6 pm on Saturday, in the gloomy recesses of the New York District Courthouse, Hanson Trust of the UK came face to face with the awkward reality that U.S. takeovers are decided as frequently in the courtroom as in the market-place.

In a preliminary judgment, the UK group was barred from any further acquisition of shares in SCM, the New York-based conglomerate which it has been trying to take over for the best part of a month, and was told that it cannot vote its 25 per cent shareholding. Jubilant opposition lawyers claimed that its chances of success were now virtually negligible.

Legal action was launched after an extraordinary sequence of events on Wednesday, when SCM announced a rival bid to Hanson's existing tender offer—a management buyout of the company, with the backing of the Merrill Lynch investment bank.

The SCM offer was pitched at $74 a share, $2 a share more than Hanson had previously put on the table. Within a couple of hours, the UK group appeared to throw in the towel, announcing that it was terminating its tender offer and would return all the shares tendered to it. Wall Street assumed that this was the end of the affair, particularly since SCM had agreed to an option whereby two of its most profitable divisions could be bought by Merrill at what looked like knockdown prices.

Hanson, however, had another shot in its locker. Not long after it put out its *Press statement*, it began buying SCM shares fast and furiously. According to the court, it spent almost $230m in cash, in a period of less than two hours, to acquire about a quarter of SCM's common stock at a standard price of $73.50 a share. It was stopped by a temporary restraining order, slapped on by the court, at 9 pm that evening.

The legal arguments over these tactics have centred on what is fair to SCM shareholders. Under the so-called 13D procedures, named after a form which has to be filed with the Securities and Exchange Commission, there is nothing to stop a company or private individual launching a spending spree like Hanson's on Wednesday. The acquisitions have to be for investment purposes only and 13D forms have to be filed once a stake goes over 5 per cent or is materially changed: but the filing period is 10 days, allowing investors to buld up substantial stakes some time before they become *generally known*.

SCM, contended, however, that Hanson's actions had nothing to do with establishing a straightforward investment in the company. The UK group, it said, was trying to block the management buyout by building up a stake of over one third in the company, since the deal with Merrill was contingent upon a two-thirds majority. In order to acquire this blocking minority, it alleged, Hanson had in effect triggered a secret plan to acquire the company, involving a de-facto tender offer, which did not comply with the U.S. disclosure rules.

In addition, it said, Hanson's actions were against the financial interest of SCM shareholders, because they could prevent the "economically superior" buyout proposals from going through.

Handing down the preliminary injunction, Judge Shirley Kram agreed with the SCM lawyers on all the basic issues. She said that if Hanson were to acquire more than a third of the SCM shares, and the buyout was defeated, the interests of shareholders could be "irreparably harmed," and she agreed that the acquisition process was close to that of a tender offer. Various features in the share buying programme, she said, "compelled" the conclusion:

- The time between the announcement "purporting" to terminate the tender offer and the first transaction was very brief;
- All the purchases were made in less than two hours;
- There was a single, firm cash price for all the transactions; and
- The price was approximately *one point ($1) above the prevailing market price*.

Judge Kram made no detailed observation on the alleged "secret" plan although, secret or not, it casts a revealing light upon one of the newer phenomenons of the U.S. takeover game—the importance of the market professionals or arbitrageurs.

In some virulent legal language, SCM claimed that Hanson's intentions were to commence a "formal" tender offer, calculated to drive substantial portions of the target stock into the hands of the arbitrageurs, "and then falsely purported to terminate the offer, leaving those professionals eager to unload their SCM blocks to Hanson at breakneck pace, on terms not available to the public shareholders."

It emerged in court that the arbitrageurs did indeed play a central role in enabling Hanson to build up its shareholding so rapidly. There were six big transactions involving the market professionals, and in one of them Mr Ivan Boesky, the leading New York arbitrageur, handed over 1.1m of the 3.1m shares purchased by the UK company.

According to analysts the "arbs," as they are called on Wall Street, were prepared to sell at $73.50—or 50 cents below the buyout price—because about 15 per cent of the SCM Merrill offer was in stock, and the financial carrying costs of their investments made it more profitable to take cash than to wait for the conclusion of the buyout. Hanson had also presumably convinced them that it would not put a higher bid on the table.

Terry Dodsworth

Polaroid wins first round in action against Kodak

BY TERRY DODSWORTH IN NEW YORK

POLAROID, THE U.S. instant photography group, has won the first stage of a nine-year-old patent battle over the launch of a similar product by Kodak, the dominant U.S. camera company.

A ruling made in a federal district court in Boston specified no damages and is likely to go to appeal. But the initial view of the judgment is that it is very favourable to Polaroid since the judge found that Kodak had infringed seven of the 10 patents involved in the suite.

Polaroid began the action for damages in 1976, only a few days after Kodak introduced its first instant camera. The company claimed patent infringement on technology in its own Polaroid SX-70 system introduced in 1972.

Analysts believe that the court decision is unlikely to have much effect on the fortunes of either company. The instant photography boom peaked in 1978, and since then both companies have lessened their dependence on the mass consumer market that was at issue in the case.

Steinway disposal by CBS

CBS, the U.S. television and entertainment group, has sold Steinway and Sons, the piano maker, and three other musical instrument offshoots to a private Boston-based company formed for the purpose, Our Financial Staff writes.

The purchaser, to be called Steinway Musical Properties, acquired the CBS units—which also include manufacturers of flutes and piccolos, harps and organs—on undisclosed terms. All were said to be profitable, however.

Second stock market planned for Singapore

SINGAPORE is to set up a second securities market by mid-1986 in order to help small local businesses hit by a domestic economic downturn, Reuter reports from Singapore.

The Monetary Authority of Singapore and the country's Economic Development Board at the weekend confirmed the previously mooted plans.

"This market will serve as an alternative source of long-term funds for young and growing companies who do not yet qualify for listing on the main board of the Stock Exchange of Singapore (SES)," the announcement said.

The market will enable such companies to raise funds through the issue of shares and remove the need to pay heavy interest in the early stages of their development, it added. "The market will be established under the auspices of the SES and is expected to be operational in the second half of next year."

Sanlam poised to take over supermarket group

BY ANTHONY ROBINSON IN JOHANNESBURG

SANLAM, the South African insurance group, is poised to take control of Kimet, owner of the nationwide Checkers supermarket chain.

The Johannesburg Stock Exchange has agreed to suspend the listing of the shares of Kirsh Trading Group, Metro Corporation and Kimet, the holding company for Kirsh Trading, pending an announcement from Sanlam.

The insurance company acquired 49 per cent of the Kirsh group, one of South Africa's leading retail and furniture chains, last May for an undisclosed sum and then injected a further R70m ($28.8m) by buying and leasing back several Checkers stores.

Kirsh said at the weekend that "an agreement which is subject to the fulfilment of several conditions precedent has been concluded between Kimet's controlling shareholder, Kirsh Industries and Sanlam. If the conditions are fulfille control of Kimet will pass to Sanlam."

Olivetti lifts interim sales 33%

OLIVETTI, THE Italian electronics manufacturer, has announced a 33.1 per cent jump in first-half group sales to L2,505.5bn ($959m), Reuter reports from Ivrea.

The company said North America had become its largest market outside Europe, after parent company exports to the region rose 340 per cent in the first half over the first six months of 1984.

It gave no direct profit figures, but said parent company gross margins rose 31.9 per cent to L586.6bn while cash flow rose 59.3 per cent to L277.9bn.

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book Runner	Offer yield %
U.S. DOLLARS							
Rockefeller Center (c)(d)§‡	335	2000	15¼	8	100	Goldman Sachs	8.000
Rockefeller Center (d)§‡	952.25	2000	15¼	0	22.58	Goldman Sachs	10.250
Sanwa Bank §‡	100	2000	15	2¾	100	Sanwa Int.	2.750
Sekisui Chemical ¶‡	30	1990	5	6¾	100	Yamaichi Int. (Eur)	6.750
Kokusai Kogyo ¶‡	30	1990	5	7	100	Nomura Int.	7.000
Ricoh ¶‡	100	1990	5	6¾	100	Nomura Int.	6.750
Marubeni ¶	75	1992	7	(7⅝)	100	Yamaichi Int. (Eur)	*
Nippon Kokan ‡	80	1992	6½	10⅜	101¾	Nomura Int.	9.870
Man Hanover (a)†‡	150	1992	7	⅛	100	Merrill Lynch	–
Eli Lilly ‡	150	1992	7	10¼	99⅞	Morgan Stanley	10.276
Ind. Bank of Japan ‡	150	1995	10	10½	100⅝	IBJ Int.	10.436
Takugin Int. (Asia) (e)†‡	100	1997	12	¼	100	Salomon Brothers	–
Christiania Bank (a)†‡	100	1997	12	¼	100	Salomon Brothers	–
CCF (f)†‡	100	1992	7	5bp	100	CCF	–
Dresdner Finance ‡	100	1992	7	10½	99¾	Dresdner Bank	10.552
Security Pacific (g)†‡	100	1992	7	¼	100	Banque Paribas	–
Invalever ‡	100	1992	4¾	ɸ	100	Morgan Guaranty	–
Thomson Brandt ‡	100	1992	7	10	100⅞	Banque Paribas	9.821
CANADIAN DOLLARS							
Bank of Tokyo ‡	80	1995	10	11	101¾	Bank of Tokyo Int.	10.767
NEW ZEALAND DOLLARS							
IBM Credit Corp. ‡	60	1988	2	17	101	Morgan Guaranty	16.561
D-MARKS							
Asian Dev. Bank ‡	200	1995	10	6½	99½	Deutsche Bank	6.570
BFCE ‡	200	1995	10	6½	99½	Dresdner Bank	6.570
SWISS FRANCS							
Kobe Steel ¶‡	100	1990	–	3	100	Crédit Suisse	3.000
Honshu Paper Co. **¶‡	50	1990	–	2⅞	100	Crédit Suisse	2.875
FAI Fin. Services ‡	200	1995	–	6	100¼	Sofitic	5.960
Sanwa Bank **§‡	100	1990	–	1⅜	100	UBS	1.375
Wasino Machine **§‡	60	1990	–	1½	100	UBS	1.500
Aoki Corp. **§‡	50	1990	–	1½	100	Swiss Volksbank	1.500
Aoki Corp. **¶‡	100	1990	–	2⅞	100	Swiss Volksbank	2.875
Tobu Railway **§‡	50	1991	–	1½	100	SBC	1.500
Tokyu Tourist **§‡	25	1990	–	1½	100	Swiss Volksbank	1.500
Meidensha Electric ¶	60	1990	–	(3⅛)	100	Banca del Gottardo	*
Jujo Paper Co. **‡	100	1990	–	5½	99¾	SBC	5.568
Oberoest'ische Kraft.	100	1997	–	(5½)	*	Crédit Suisse	*
C'wealth Bk Australia **‡	50	1992	–	5⅛	100	SBC	5.125
GUILDERS							
IADB	200	1995	8	7¼	*	ABN	
BELGIAN FRANCS							
World Bank ‡	5bn	1995	10	10¼	99¾	Generale Bank	10.281
LUXEMBOURG FRANCS							
Club Med. **‡	300	1990	5	9	100	Kredietbank Int.	9.000
Council of Europe ‡	600	1995	8½	8⅞	100	BIL	8.875
YEN							
Finland ‖‡	13bn	1995	10	7⅞	102	Yamaichi Int. (Eur)	7.583
Asian Dev. Bank (b)‡	35bn	1995	10	6½	99½	First Boston Corp.	6.570

* Not yet priced. ‡ Final terms. ** Private placement. § Convertible. † Floating rate note. ¶ With equity warrants. ‖ Dual-currency. ɸ Mismatch: Higher of 6m Libor or 1m Libor (first coupon payable quarterly). (a) ⅛ over 3m Libmean. (b) Raised on U.S. domestic Market. (c) 8% first 9¼ years, then 13%. (d) At maturity investors can convert or buy a 7-year FRN at 100, immediately callable. (e) ¼ over 6m Libor; maximum coupon 13¾% from fourth year. (f) 5 basis points over 6m Libor; with 100,000 1-year bond warrants to buy fixed rate ECU bond for 7-years, coupon 8¾% at 100. (g) ¼ over 3m Libor; maximum coupon 13% from third year.
Note: Yields are calculated on AIBD basis.

CONTRACTS

£25m work for ISIS company

ISIS CONSTRUCTION, part of the Swindon-based ISIS Group, has been awarded contracts totalling £25m, including a £6m design and build contract from Argyll Stores (Properties). The project involves the construction of a major distribution unit of 205,000 sq ft in Welwyn Garden City including regional office accommodation and workshop areas. The building will be a steel framed multi-bay structure with a proprietary metal roof and cladding. The 205,000 sq ft will be made up of 186,000 sq ft of warehousing, 13,300 sq ft of offices and canteen, 6,000 sq ft for a vehicle maintenance bay, and a small gatehouse.

A £4.5m management contract has also been received for a high technology office development at Westlea Down, Swindon, for Wyndham Investments. The project will provide 84,000 sq ft in three two-storey structures on its completion in early autumn 1986. The construction will be a structural steel frame with aluminium and glazed curtain-walling units and the project is scheduled to last 56 weeks.

Other major contracts include a £2.5m contract for business pavilions at Kembrey Park, Swindon, for Sun Alliance and a total of £10m term maintenance contracts at St Mawgan, Devonport, Folkestone, Larkhill and Warminster. Other contracts cover joint sealing and surfacing projects on major roads and airfields and construction of retail and industrial units.

London and Northern Group £9m awards

LONDON AND NORTHERN GROUP have been awarded contracts worth £9m in Scotland and the north of England. A. Farquhar (Builders) of Aberdeen has been awarded contracts worth £6.28m. The two largest contracts are for workshops and offices at Kirkhill Industrial Estate, Dyce, for Halliburton Manufacturing and Services for the management contractor, Conder Projects Scotland, valued at £1.36m and a contract for £1.54m for the completion of 56 houses at Garthdee, Aberdeen, for the Scottish Special Housing Association.

Grampian Health Board has awarded two contracts for the ambulance headquarters value £378,351 and work at the opthalmology department for £480,402. Farquhar will also build a new Paddock stand at Pittodrie Stadium for Aberdeen Football Club at £464,429 and a medical centre for the Skene Medical Group for £181,529. A residential development at Gordon Street, Aberdeen, has been secured at £754,238, and warehouse and office extensions at Altens Industrial Estate will be carried out for Black Gold Oil Tools for £110,775.

In the north of England, group companies have been awarded contracts worth £1.03m. Wilsons (North East) will revitalise 92 houses at Penshaw, County Durham, for Sunderland Borough Council and carry out further revitalisation of 40 houses at Wheatley Hill, County Durham, for Easington District Council in contracts worth £579,000. G. W. Lazenby of Ferryhill has been awarded a school conversion at Gilesgate for £185,000 by Durham County Council.

Henry Boot's £3.8m orders

Contracts worth £3.8m have been awarded to HENRY BOOT companies. A £1.7m 34-week contract has been awarded to Henry Boot Northern for the modernisation of maintenance and servicing facilities at Longsight Carriage Depot, Manchester. Existing premises are to be refurbished and altered and an amenity building is to be constructed as well as the provision of a new roadway, carriage washing plant facilities and service installations. The client is British Rail Midland region. Henry Boot Northern has started work on a £760,000 civils contract at Eggborough Power Station for the Central Electricity Generating Board. An access road complete with weighbridge and vehicle wash facilities is to be provided leading from the A19 road to an existing coal stocking area. Yorkshire Water Authority has awarded a 52-week contract for the construction of an underground service reservoir at Stannington, Sheffield. Civil engineering work valued in excess of £400,000 is involved.

Leeds reservoir plan

G. DEW & CO, the civil engineering subsidiary of George Dew, has been awarded a £4m contract by the Yorkshire Water Authority, central division, for the construction of a 45 megalitre covered reinforced concrete service reservoir at Headingley, Leeds. Also included in the contract is a pumping station and 1,100 metres of steel and ductile iron pipework, 1,600 mm diameter to 800 mm diameter, some of which is to be laid in tunnels underneath the A600 and other existing services. The project is designed to improve the water supply services to the northern part of the city.

Crown House to build Plessey development

CROWN HOUSE ENGINEERING has won contracts worth over £17m. Heading the list is a design and construct multi service contract valued at around £6m placed by AMEC Projects for the new Plessey Development at Belvedere, Plymouth. Work comprises the mechanical and electrical installation of a high tech wafer fabrication and manufacturing complex, including office and test facilities. Completion is scheduled for the end of the year.

The British Airports Authority has awarded the electrical installation "B" contract for the North Terminal development at Gatwick Airport. The contract valued at around £2.7m is for the power, lighting and ancillary systems for the development and includes the supply and installation of 415V distribution boards, cabling, lighting, small power, telephones, fire alarms and communication systems. Work is expected to be completed by February 1987.

The Croydon office has been awarded a contract valued at about £2.6m by Marconi Underwater Systems for its development at Croxley Mill, Watford, consisting of offices, laboratories, computer suites and associated buildings. The contract is for the total multi service installation including mechanical, electrical, fire protection, public health systems and external services. The scheduled completion date is April 1986.

A £1.85m contract has been received for the installation of all mechanical and electrical services required for the new paediatric cardiology unit and the new Institute of Child Health unit at Alder Hey Hospital, Liverpool, by Mersey Regional Health Authority. The mechanical services include fire protection services, hot and cold water services, steam and condensate services, and air conditioning. Work on the project is expected to be completed by August 1987.

The NW regional hospital board has placed a £1.27m order covering the installation of electrical services in a "nucleus" extension, comprising four wards and theatre blocks, at Oldham General Hospital. The services include: mains distribution system; central lighting system; power system; emergency lighting system, nurse call, radio and TV systems; alarm systems and electrical services to hospital equipment. Completion is expected February 1988.

Other contracts include: mechanical services of a new office and product demonstration facility with workshops in Stockport for Hewlett-Packard at a cost of £950,000.

BUSINESSMAN'S DIARY

UK TRADE FAIRS AND EXHIBITIONS

Current
Chelsea Antiques Fair (04447 2514) (until September 21) — Chelsea Old Town Hall

Current
International Plastics and Rubber Exhibition — INTERPLAS (021-705 6707) (until September 20) — NEC Birmingham

September 22-25
Harrogate Fashion Fair (01-637 2400) — Exhibition Centre

October 6-18
Promotional and Incentive Merchandising Exhibition—PRIMEX (0622 671081) — Kensington Exhibition Centre

October 8-10
INTERNEPCON Conference and Exhibition (01-891 5051) — Brighton

October 8-11
Repro Workshop 85 — the London Printing Show (01-647 1001) — Olympia

October 11-13
National Franchise Exhibition (01-727 1929) Kensington Exhibition Centre

October 17-27
Motorfair '85 (01-439 0875) — Earls Court

October 21-25
International Business Show (01-405 6233) NEC, Birmingham

October 22-24
International Products, Services and Technology for Financial Houses — BANKING (021-705 6707) — Barbican Centre

October 25-November 3
International Bike Show (01-385 1200) — NEC, Birmingham

October 29-November 1
Home Interiors Exhibition—London *(01-385) 1200)* — Olympia

October 29-31
Cleaning and Maintenance Exhibition — EUROPACLEAN (0923 777000) — Barbican Centre

OVERSEAS TRADE FAIRS

Current
International Engineering Fair (021-455 9600) (until September 18) — Brno

September 18-22
Fishfarming '85 (021-705 6707) — Reykjavik

September 18-27
International Office Equipment Exhibition—SICOB (01-439 3964) — Paris

September 23-28
International Exhibition of Foreign Technology and Equipment (01-486 1951) — Chongqing, China

September 24-27
International Airport Construction and Equipment Exhibition—*INTER-AIRPORT (0727 63213)* — Frankfurt

September 27—October 6
International Toy Exhibition and Fair—INTERPLAYEXPO (021 705 6707) — Budapest

October 16-19
International Industrial Electronics and Electro Techniques Trade Fair *(01-977 4551)* — Vienna

October 17-18
European Marine Trade Exhibition—EMTEC (0202 687070) — Hamburg

October 18-25
The 1985 International Capital Goods Trade Fair (Cleveland *(216) 676 44135) Cleveland, Ohio*

October 20-24
International Videocommunication Market Exhibition—VIDCOM (01-499 2317) — Cannes

October 29-31
International Videotex Conference and Exhibition—VIDEOTEX (01-868 4466) — Amsterdam

October 29-31
International Clothing Textiles *Trade Fair—INTERSTOFF (01-734 0543)* — Frankfurt

November 3-7
Petrochemicals, Chemical and *Plastic Industries Exhibition* and Conference — PETCHEM-*PLAST (01-486 3741) Al-Khobar*

BUSINESS CONFERENCES

September 16-19
Labmate: International environment and safety conference (0727 51993) — Olympia

September 17
Trickett Associates/Price Water-*house: Dealing with dealing* seminar (01-388 6586) — City Conference Centre, EC3

September 18-19
Freight Transport Association National Conference (0892 26171) — London Hilton

September 20
The Economist: Intrapreneurship in Practice: creating and managing innovation in large corporations *(01-839 7000)* — The New Piccadilly Hotel, W1

September 25
BSI: Structural use of concrete (01-629 9000) — Wembley Conference Centre

October 1
Longman Seminars: Liability Insurance (01-242 4111) — Barbican Centre, EC2

October 8-9
Westrade Fairs: U.S. market opportunities—a seminar on *transatlantic direct investment* and trade (0923 778311) — *City of London*

October 10
James Morrell Associates: Business forecasts for the motor trades to 1990 including prices and running costs (01-236 6950) — Bewater Conference Centre, SW1

October 10
Metal Bulletin Conferences: EEC steel—back to a free market? (01-633 0525) — Tara Hotel, W8

October 14-15
Euromoney Conferences: Export Finance (01-236 3288) — Grosvenor House Hotel

October 16-17
FT Conference: Fourth retail banking conference—the economies of financial services (01-621 1355) — Inter Continental Hotel, W1

October 16-18
Risk Research Group: Solvency *assessment (01-236 2175)* — Waldorf Hotel, WC2

October 21-22
FT Conference: Electronic finan*cial services (01-621 1355)* — Hotel Inter-Continental, W1

October 24
Institute of Directors: How to *increase your sales (01-839 1233)* — 116, Pall Mall, SW1

October 24-25
International Herald Tribune: *Oil* and money in the eighties (01-242 1242) — *Royal Garden Hotel, W8*

October 29-31
SUBTECH '85 "Designing for Intervention" (01-222 8858) — *Aberdeen Exhibition and Conference Centre*

October 30-31
FT Conference: The third professional personal computer conference (01-621 1355) — Inter Continental Hotel, W1

Anyone wishing to attend any of the above events is advised to telephone the organisers to ensure that there has been no change in the details published.

FINANCIAL DIARY FOR THE WEEK

The following is a record of the principal business and financial engagements during the week. The board meetings are *mainly for* the purpose of considering dividends and official indications are not always available whether dividends concerned are interims or finals. The sub-divisions shown below are based mainly on last year's timetable.

TODAY

COMPANY MEETINGS—

[illegible]

S.W. Wood returns to dividend list with 1p final

S. W. Wood Group, non-ferrous metal merchant and processor, has returned to the dividend lists with a proposed final payment of 1p for the year to end-March 1985. The last payment was in respect of 1980-81.

The decision was taken with the company having made profits for the last two years following three years of losses. However, the period under review suffered a setback with turnover showing a slight fall to £17.39m (£17.61m) and pre-tax profits down 20 per cent to £285,000 (£355,000). Earnings per 20p share fell to 4.7p (6.1p).

Mr S. W. Wood, chairman and managing director, says aluminium provided the main contribution to earnings but with relative price stability margins were under pressure. The smaller depots traded satisfactorily but the larger ones, where purchasing was mainly from other dealers, were less successful.

Despite restructuring at the central yard it still failed to make any return and further changes are being made.

He adds that the group has restarted aluminium smelting at its plant in Scotland. Only a limited amount of capital has been allocated to the venture which, Mr Wood says, has good medium-term earnings potential.

Operating profit came out at £429,000 (£537,000) and net interest payable was £146,000 (£162,000). There were exceptional credits of £2,000 against debits last time of £20,000. With a tax charge of £10,000 (nil) the dividends taking £24,000 (nil), retained profit was £251,000, against £355,000 last time.

Mr Wood says of the present year that the trading environment has been more difficult than for some time with metal prices having fallen and aluminium in particular down by 40 per cent. Margins have suffered and he warns that operating profits for the first half will be lower than for the corresponding period.

Stock Conversion plans are postponed

By Charles Batchelor

AN EARLY meeting between the boards of Stockley, the property company backed by Mr Jacob Rothschild, and Stock Conversion, the property group in which it holds a large stake, looks increasingly likely following Stock Conversion's decision to drop plans for an increase in its capital.

Stock Conversion said over the weekend that it would drop plans for a composite resolution to be put to tomorrow's special shareholders meeting.

The resolution would have increased the group's share capital from £13.25m to £52m, allowed a two-for-one capitalisation issue, permitted the issue of further new shares by means of an ordinary resolution only, and appointed Mr Joe Levy, one of the co-founders of Stock Conversion, as president of the group.

It emerged last Thursday that Stockley planned to veto this resolution, using its 26.5 per cent holding in Stock Conversion. A 75 per cent vote is needed to approve special resolutions.

Stock Conversion said that it was "extremely disappointed at the negative and unwelcome attitude adopted by Stockley."

It added that it was "profoundly disturbing that the part-time board of Stockley should seek to exercise an unwarranted degree of control over the affairs" of Stock Conversion.

Stock Conversion argued that there was nothing unusual about its special resolution, which was consistent with the practice of most other public companies.

There was now a clear and serious conflict of interest between Stockley and the other shareholders, Stock Conversion said. "Stockley is attempting to seek management control by back-door methods," it added.

Stock Conversion said it would resubmit its resolution as soon as it was able.

Bad summer weather hits George Oliver but payment lifted

THE BAD summer weather, especially in June, adversely affected sales at George Oliver (Footwear), in the first six months of 1985.

Turnover moved ahead to £18.18m against £17.08m, but there was a trading profit of just £99,000 (£238,000). At the pre-tax level after higher interest charges of £401,000 (£360,000) losses of £169,000 were suffered compared with profits of £302,000.

Despite these results, the directors are lifting the interim dividend from 1.6p to 1.8p For 1984 with profits of £2.69m (£2.58m) achieved, a total of 8p was paid.

In th half year to end-June the main fashion theme was fabric footwear, the directors state, the sale of which was particularly depressed.

The January sale contained an increased quanitity of reduced merchandise, and with the lower than expected level of summer trade the cost of the sale had a greater influence on the results than expected, they say, leaving gross margins very tight.

Trade in certain of the traditional mining areas remains depressed, as the debts incurred during the miners' strike are repaid.

Although the remainder of the summer has shown the same depressed level of demand for seasonal merchandise, the directors say there is a fashion trend emerging for the autumn which is giving them confidence that sales targets will be achieved. If this is so, they say full year results will be an improvement over 1984.

The 1984 sales figure contained £0.31m from trading in the concession outlets which was discontinued in May last year.

There was no tax for the half year, as against a £77,000 charge before.

At least eight new branches will be opening during the year and a number of existing branches will be refitted.

Breedon and Cloud Hill advances 10%

Breedon and Cloud Hill Lime Works has reported an increase in turnover of 9 per cent for the first six months of the present year, with taxable earnings showing a 10 per cent advance.

In the six months to July 31 turnover for the Derbyshire-based company rose from £2.08m to £2.27m, with pre-tax profits of £730,000, against £663,000. From earnings of 7.72p, compared with last year's 6.41p, the interim dividend is raised from 2.4p to 3p.

The tax charge was £260,000, against £274,000 and the dividends took £182,000 (£146,000).

John Kent 39% ahead

On sales up more than 22 per cent from £9.97m to £12.22m, menswear retailer John Kent reports pre-tax profits up from £636,000 to £870,000 in the year to May 25, 1985.

A final dividend of 1.075p net makes a total of 1.5p (0.8p single payment)—the company's shares are traded on the Unlisted Securities Market. Stated earnings per 5p share were 5.15p compared with 4.11p.

LDH profits virtually doubled at £237,000

AS FORECAST at the interim stage, LDH Group, the Glasgow-based distributor of furnishing and upholstery fabrics, drapery and hardware, is proposing to return to the dividend lists with its first payment for many years. Pre-tax profits for the year ended May 31 1985 almost doubled from £122,651 to £236,919.

The directors are recommending a single final payment of 0.35p which is covered almost six times by earnings per 15p share of 2.02p (1.13p) for the year to the end of May 1985.

Turnover was up by 18 per cent to £5.82m, against £4.94m.

Mr M. S. Ross, chairman, says the results reflect the continued progress of the main subsidiary, S. Ross & Co, which saw sales increase by 33 per cent.

The current year has started well and the chairman is confident the group will make good progress.

Hartons offer lapses

THE OFFER by Hartons Group, the USM quoted distributor of plastics and consumer products, for Cole Group, a plastics manufacturer, has lapsed.

Earlier this month, Hartons said that if it did not have a majority of acceptances by September 13, the bid would close. By that date, the level of acceptances was unchanged at 0.2 per cent, representing 5,940 per cent of ordinary shares.

The offer valued Cole at around 200p per share in the form of a swap of cumulative preference shares for Cole ordinary, but these were lifted above the offer terms by the intervention of Low and Bonar, the Dundee-based packaging, engineering, travel and textiles group.

Soon after the Hartons terms were announced, Low bought a stake of around 25 per cent in Cole, but has declined to comment on market speculation that it might mount a bid itself. At 228p on Friday, unchanged, Cole's shares were still well above the Hartons terms.

Royal London agrees terms to buy Lion Ins.

Royal London General Insurance Company, the non-life subsidiary of the Royal London Mutual Insurance Society, the Colchester-based home service insurance company, has agreed terms to purchase the Lion Insurance Company from London Merchant Securities.

The price is not disclosed, but since Royal London is a mutual life company the consideration has to be in cash.

Royal London, as a home service company specialising in life and individual pensions, has a comparatively small non-life account, mainly personal insurance business sold through its field force. However, its long-term objective is to expand its non-life business—it is opening a London underwriting room next February—and Lion is its first-ever acquisition.

Lion is a small specialist motor insurance company based in Chelmsford. It does some other domestic insurance business, mainly house contents. The company markets solely through insurance brokers.

Its premium income is expected to reach £8m this year.

It has operated on an underwriting profit until last year when underwriting losses were substantially in line with market trends. Currently its trading profit is around breakeven.

LMS is disposing of Lion as part of its rationalisation programme. When the sale is completed, the group will have wholly withdrawn from the financial services sector, having sold its interest in Framlington, the unit trust group, in July.

SHARE STAKES

Changes in company share stakes announced over the past week include:

Oxford Instruments—A. Costleywhite, a director, sold 20,000 ordinary and 1,700 as a trustee.

Good Relations Group—Mr Anthony B. M. Good, director, purchased 10,000 shares at 164p per share.

Bardsey — Mr Michael Huang Heng Shu, with effect from September 5, 1985, became interested in a further 1m preferred ordinary. His total interest now amounts to 6m preferred ordinary (10 per cent of that class).

Pyke Holdings — J. Harwood, a director, has sold 17,500 ordinary shares at 336p.

Rentokil Group — E. M. Buchan, director, on behalf of his wife, disposed of 94,000 ordinary shares — 50,000 at 148p and 44,000 at 147p — and now holds 6,000 ordinary (0.0031 per cent)

Bespak — G. E. H. Begley, a director, has disposed of 20,000 ordinary shares at 225p.

BOARD MEETINGS

TODAY

Interims:—C. D. Bramall, Brent Chemicals International, EIS, Enterprise Oil, Hall Engineering, Invergordon Distillers, Laidlaw Thomson, Manor National, Ransomes Sims and Jefferies, Roberts Adlard, Scottish Heritable Trust, Simon Engineering, E. T. Sutherland, Tarmac, Wolstenholme Rink.

Finals:—Coin Industries, Dalgety, G. T. Japan Investment Trust, Isotron, Mann, Old Court International Resources, Process Systems.

FUTURE DATES

Interims:—

Anglo American Invest. Tst.	Oct 3
Benson Clark	Sept 23
Beauford	Sept 26
Bentalls	Sept 26
BETEC	Sept 25
Central Independent Television	Sept 26
Combined English Stores	Sept 23
Cory (Horace)	Oct 10
Edinburgh Investment Trust	Oct 14
F & C Pacific Invest. Tst.	Sept 26
Farmer (S. W.)	Oct 8
Gartmore Information and Financial Trust	Sept 18
Jacks (William)	Sept 30
Moss Bros.	Sept 23
Rio Tinto-Zinc	Sept 25
Spong	Sept 18
Stag Furniture	Sept 26
Steaua Romana	Sept 17

Finals:—

Barratt Developments	Sept 24
Blanchards	Sept 23

RECENT ISSUES

EQUITIES

Issue price	Amount paid up	Latest Renunc. date	1985 High	1985 Low	Stock	Closing price	+ or −	Net Div.	Times covered	Gross Yield	P.E. Ratio
§59	F.P.	9/8	66	58	✠ATA Selection 5p	65	......	bg1.5	2.6	3.4	17.1
67	F.P.	6/9	89	69	✠Aberd'n Steak H. 5p	85	......	ug2.2	2.0	3.8	18.8
¶¶	F.P.	—	£22	£19	Alex. & Alex. c. $1	£20	−¼	—	—	—	—
§34	F.P.	20/9	41	35	Anglo Utd. Dev.	41	......	bd1.05	2.1	3.6	18.4
—	F.P.	—	7	6	Bardsey Pfd. Ord.	7	......	—	—	—	—
170	F.P.	22/8	205	195	Bradstock 5p	203	−2	bg5.25	2.4	3.7	16.2
375	F.P.	10/9	429	303	British Aerospace 50p	378	+11	15.65	3.1	3.5	10.2
185	100	1/11	148	117	Britoil 10p	127	−1	t13.0	3.0	8.8	6.1
‖‖	F.P.	—	145	140	Business Mort. Tst.	140	......	u1.51	3.9	1.5	24.0
‖‖	F.P.	30/8	100	80	✠CobraEmer'ldMines	83	......	—	—	—	—
§70	F.P.	20/9	75	69	Conrad Hldgs.	74	......	bg3.5	2.2	6.8	9.6
§115	F.P.	6/9	128	118	ControlTechniques5p	125	.....	bg2.7	2.7	3.1	15.2
§51	F.P.	—	52	48	✠Dean Park Hotels	51	......	—	—	—	—
‖‖	F.P.	—	123	97	Greenwich Resources	97	−3	—	—	—	—
§20	F.P.	27/9	27	25	✠Israel (Jack L.) 4p	26½	−½	60.5	2.5	2.7	22.6
§110	F.P.	6/9	112	98	✠Lewmar	112	+2	u2.626	3.0	3.4	13.8
§65	F.P.	30/8	72	68	✠Lysander Pet. 5p	70	......	—	—	—	—
§44	F.P.	—	64	46	✠Micha'l(J)Design2½p	64	......	1.0	3.6	2.2	17.3
105	F.P.	4/9	107	87	✠Moss Advertising5p	97	......	bg2.46	3.0	3.6	13.8
§99	F.P.	9/8	150	102	✠Polypipe 10p	149	−1	b2.9	2.7	2.8	18.7
150	F.P.	9/8	125	90	✠Sapphire Petm.50p	90	−3	—	—	—	—
§73	F.P.	—	104	74	✠Trilion 10p	90	......	bg1.1	4.2	1.8	18.7

FIXED INTEREST STOCKS

Issue price £	Amount paid up	Latest Renunc. date	1985 High	1985 Low	Stock	Closing price £	+ or −
97.305	£30	—	30⅛	29⅝	Australia 9½% Ln. 2012	30	+⅛
§91.443	£30	—	28½	27½	Bank of Greece 10¾%Ln. 2010	27¾	+¼
§96.456	£25	27/11	26¼	25⅝	Brixton Est. 10¾% 1st. Mort. Deb. 2025	26	+⅜
§98.324	£40	—	106½	104½	Est. & Gen. Inv.11¼%1stMort.Deb.2018	105½	......
¶¶	F.P.	25/10	112	106	Guinness 8¼% Cnv. Uns. Ln. 1995/2001	110	+1
¶100	£10	—	13½	13¼	Eastbourne Water 8⅝% Red. Prf. 1996	13½	......
88.466	£30	24/1	31⅞	29⅝	Intl. Bk. for Rec. & Dev. 9½% Ln. 2010	30	+⅜
90.705	F.P.	6/9	95⅞	90⅞	Malaysia 10¾% Ln. 2009	93⅝	+¼
§100	F.P.	—	92½	84½	✠Memory Comp. 7.8% Cnv.R.Pf1994/8	92½	......
—	F.P.	—	100⅛	99½	Nationwide11⅝% Bds. 11/8/86	99½	......
—	F.P.	—	100	99⅞	Do. 11¼% Bds. 1/9/86	99⅞	−¼
—	F.P.	—	100	99½	Do. 11 7/16% Bds. 15/9/86	99⅞	−1/16
‖	F.P.	—	103p	101p	Wintrust 5¼% Cnv. Cum. Pref.	102p	......

RIGHTS OFFERS

Issue price p	Amount paid up	Latest Renunc. date	1985 High	1985 Low	Stock	Closing price p	+ or −
47	F.P.	—	59	55	Brit. Vending 10p	57	......
360	F.P.	27/9	416	405	Forshaws Burtonwood	415	......
62	Nil	—	63pm	35pm	Greenwich Resources	35pm	−3
185	100	28/10	130	99	Hanson Trust	122	......
15	F.P.	—	19½	17	RTD Group IR 1.75p	17	−½
425	F.P.	20/9	505	445	TACE 10p	455	......
250	F.P.	23/9	300	285	✠Thermal Scientific	300	......

Renunciation date usually last day for dealing free of stamp duty. *b* Figures based on prospectus estimates. *g* Assumed dividend and yield. *u* Forecast dividend cover based on previous year's earnings. *p* Pence unless otherwise indicated. ¶ Issued by tender. ‖ Offered holders of ordinary shares as a "rights." ** Issued by way of capitalisation. §§ Reintroduced. ¶¶ Issued in connection with reorganisation merger or takeover. ■ Allotment letters or fully paid. ‖‖ Introduction. ✠ Unlisted Securities Market. § Placing price. ‡‡ Dealt in under Rule 535 (3). ♥ Dealt in under Rule 535 (4) (a).

PENDING DIVIDENDS

Dates when some of the more important company dividend statements may be expected in the next few weeks are given in the following table. The dates shown are those of last year's announcements except where the forthcoming board meetings (indicated thus*) have been officially notified. Dividends to be declared will not necessarily be at the amounts in the column headed "Announcement last year."

	Date	Announcement last year
*BPCC	Sept 19	Interim 3.0
*Bank of Scotland	Sept 25	Interim 6.25
*Barratt Devs	Sept 24	Final 5.31
*Barrow Hepburn	Sept 17	Interim 0.8
Bejam	Oct 17	Final 2
*Bilton (P.)	Oct 4	Interim 3.9
*Boddingtons Breweries	Sept 20	Interim 1.23
*Brent Chems	Sept 16	Interim 0.75
British Home Stores	Oct 17	Interim 1.75
*Brittania Arrow	Sept 18	Interim due
*Brixton Est	Sept 17	Interim 2.1
Brooke Bond	Oct 17	Final nil
Charterhouse Petroleum	Aug 30	Interim 0.25
*Coats Patons	Sept 17	Interim 1.65
*Combined Eng Stores	Sept 23	Interim 1.96
*Cons Gold Fields	Sept 17	Final 16.0
DRG	Sept 26	Interim 3.0
*Dalgety	Sept 16	Final 13.0
Enterprise Oil	Sept 24	Interim 3.0
*Fisons	Sept 17	Interim 1.8
Foseco	Sept 26	Interim 2.8
Glaxo	Oct 8	Final 9.0
*Grattan	Sept 26	Interim 1.0
Hammerson Prop	Oct 5	Interim 2.0
Harrisons and Crosfield	Oct 16	Interim 4.5
Hawker Siddeley	Oct 17	Interim 4.1
Higgs & Hill	Oct 10	Interim 4.5
*Ibstock Johnsen	Oct 7	Interim 2.5

	Date	Announcement last year
*Inchcape	Sept 30	Interim 7.15
*Laporte Inds	Sept 19	Interim 3.2
*Legal and General	Sept 18	Interim 7.5
*Menzies (J.)	Sept 23	Interim 1.125
Mills and Allen Intl	Oct 1	Final 10.0
*Minet	Oct 2	Interim 2.73
NEI	Sept 25	Interim 1.65
News Intl	Sept 21	Final 4.8943
Octopus Publishing	Sept 26	Interim 3.6
*RMC	Sept 25	Interim 4.4
*RTZ	Sept 25	Interim 6.5
Raybeck	Oct 12	Interim nil
Rockware	Sept 10	Interim due
Rowntree Mackintosh	Sept 20	Interim 3.6
*Rugby Portland Cement	Sept 30	Interim 2.9
Sears	Oct 9	Interim 0.8
Scot Metropltn Property	Oct 5	Final 2.15
*Simon Eng	Sept 16	Interim 5.0
*Staffs Potts	Sept 19	Final 2.0
*Steetley	Sept 24	Interim 4.6
Superdrug Stores	Sept 24	Interim 1.7
*Tarmac	Sept 16	Interim 4.0
*Travis and Arnold	Sept 17	Interim 1.95
Vickers	Sept 26	Interim 4.0
*Wimpey (George)	Sept 26	Interim 0.85
*Woolworth	Sept 18	Interim 3.5

* Board meeting intimated. † Rights issue since made. ‡ Tax free. § Scrip issue since made. ¶ Forecast.

Granville & Co. Limited

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Over-the-Counter Market

Capitalisatn. £000's	Company	Price	Change on week	Gross div.(p)	Yield %	P/E Actual	P/E Fully taxed
4,608	Ass. Brit. Ind. Ord.	132	—	6.6	5.0	7.3	8.7
—	Ass. Brit. Ind. CULS	138	—	10.0	7.2	—	—
3,184	Airsprung Group	58	—	6.4	11.6	9.2	12.0
1,025	Armitage and Rhodes	41xd	+1	4.3	10.5	5.1	6.2
47,999	Bardon Hill	154	−2	4.0	2.6	19.6	20.3
3,465	Bray Technologies	63	—	3.9	6.2	7.7	8.9
653	CCL Ordinary	158	—	12.0	7.6	3.9	3.7
1,300	CCL 11pc Conv. Pref.	104	—	15.7	15.1	—	—
7,258	Carborundum Ord.	121	−2	4.9	4.0	6.0	9.4
630	Carborundum 7.5pc Pf.	90	—	10.7	11.9	—	—
4,070	Deborah Services	52	+5	6.5	13.4	5.4	7.1
30,721	Frank Horsell	481	−4	1.4	0.3	11.3	15.3
—	Frank Horsell Pr.Ord.87	390	—	11.9	3.1	9.2	12.4
3,323	Frederick Parker	23	−1	—	—	—	—
1,513	George Blair	82	+5	—	—	3.3	6.1
1,015	Ind. Precision Castings	26	+2	2.7	10.8	6.8	7.4
14,738	Isis Group	185xd	+5	15.0	8.1	14.2	21.3
5,416	Jackson Group	104	—	5.5	5.3	7.0	7.0
31,893	James Burrough	230	−2	15.0	6.5	7.3	7.3
3,189	James Burrough 9pc Pf.	92	+1	12.9	14.0	—	—
8,859	John Howard and Co.	85	+1	5.0	5.9	6.7	10.6
3,300	Linguaphone Ord.	185	−1	—	—	6.9	7.1
—	Linguaphone 10.5pc Pf.	91	—	15.0	16.5	—	—
16,385	Minihouse Holding NV	570	—	6.9	1.2	24.9	23.7
867	Robert Jenkins	85	+1	—	—	11.0	24.3
1,260	Scruttons "A"	31	—	—	—	—	7.9
1,806	Torday and Carlisle	74	−1	5.0	6.8	3.7	6.8
1,473	Travian Holdings	326	—	4.3	1.3	18.5	18.2
5,181	Unilock Holdings	33xd	−1	2.1	6.4	9.0	8.8
14,101	Walter Alexander	110xd	—	8.6	7.7	6.2	7.6
4,668	W. S. Yeates	200	+5	17.4	8.7	5.7	9.8

Prices and details of services now available on Prestel, page 48146

FINANCIAL TIMES STOCK INDICES

	Sept. 13	Sept. 12	Sept. 11	Sept. 10	Sept. 9	Sept. 6	1985 High	1985 Low	Since Compilation High	Since Compilation Low
Government Secs.	82.94	82.74	82.79	82.78	82.99	83.38	85.87	78.08	127.4	49.18
Fixed Interest	88.33	88.14	88.16	88.15	88.25	88.40	88.81	82.17	150.4	50.53
Ordinary	1011.9	1014.0	1006.6	1006.8	1020.5	1020.8	1094.5	911.0	1024.5	49.4
Gold Mines	317.3	323.9	309.3	304.1	318.9	314.8	536.9	208.1	734.7	43.5
FT-Act All-Share	634.41	635.78	631.69	636.86	642.75	643.69	646.82	581.88	646.82	61.92
FT-SE100	1308.8	1313.3	1309.3	1311.4	1329.3	1332.9	1340.8	1206.1	1342.4	986.9

UK COMPANY NEWS

Charter Consld. expects significant improvement

IN SPITE of very competitive conditions, Charter Consolidated, the industrial and mining group, expected a significant improvement from last year's depressed profits, Mr Neil Clarke, the chief executive, told the annual meeting.

For the year to March 31, 1985, pre-tax profits tumbled to £16.52m (£37.01m).

As anticipated, Charter has seen some improvement in operating profits in the first quarter. In particular, those subsidiaries which supplied mining equipment to the National Coal Board had seen a slow, but progressive, build up towards the resumption of normal ordering patterns.

Mr Clarke said that although the future major capital equipment programmes of the NCB appeared still to remain subject to some uncertainty, at this stage both Anderson Strathclyde and Perard Torque Tension believed they would achieve their budgeted sales to the NCB for the current year.

Referring to Charter's investment in Johnson Matthey, Mr Clarke said he believed the progress made so far on restoring JM from the very severe position it faced last September was encouraging.

This was also encouraging to Charter shareholders, in that a significant revival had been seen in the value of the group's original investment and a good appreciation in the value of the additional capital it agreed to subscribe last year.

Group net assets at September 10 were up to £358m (340p per share) against £345.5m (329p) at March 31, 1985.

In group overseas operations, National Mine Services in the U.S. had a good first quarter helped by the delivering of some large orders and achieved a profit, after all interest charges.

The current trend of orders and profitability was not so encouraging and the main responsibility facing the management of this company was to achieve more consistent results from the division manufacturing mining equipment, members were told.

The group's other manufacturing subsidiaries, particularly Pandrol, a supplier of railway equipment and services, and MK, had overall performed to budget in the first quarter.

Shand Mining in the US had achieved good results in the first quarter, and in the UK the contract operations for the NCB had returned to normal working conditions following the end of the miners' dispute.

At Beralt Tin & Wolfram, excellent production and recoveries had been achieved during the first four months, but the price of wolfram was currently very depressed.

Tavener Rutledge in the red

Tavener Rutledge, the Liverpool-based sugar confectionery manufacturer, has dived into the red as a consequence of a fall in UK sales in the early part of 1985.

In addition, Mr W. H. Tavener, the chairman, warns that the underlying sales level is still far from buoyant and "we do not anticipate any marked recovery in the immediate future."

Post and pre-tax losses for the first six months of 1985 amounted to £55,986, which compares with a £66,032 profit for the corresponding period and £155,202 for the whole of 1984.

In contrast to the home performance, export volume increased but although it nearly made up the shortfall, it did not compensate for the loss of profit. Total sales were virtually static at £4.06m (£4m).

Interest charges increased from £56,868 to £88,208, reflecting both higher rates and the financing of a capital expenditure programme.

COMPANY NEWS IN BRIEF

CITY & COMMERCIAL Investment Trust raised net revenue from £447,800 to £525,400 for the six months to July 31 1985. Earnings per 25p income share were 2.223p (1.895p) and the interim dividend is also increased to 2.223p (1.895p). Gross income was £842,300 (£711,300). Expenses and interest took £82,800 (£61,700) and tax £234,100 (£201,800).

WEEKS PETROLEUM, Bermuda-based oil and gas explorer, incurred a pre-tax operating loss of $16.04m (£11.74m) in the first half of 1985, compared with profits of $15.34m. The result was after accounting for losses of $31.85m from the effects of the strengthening of the U.S. dollar upon the Australian dollar receivables, included in the balance sheet at end-1984, but not received until the period under review. Turnover fell from $23.4m to $12.12m. The directors are considering the cessation of the company's Stock Exchange listing.

EDINBURGH FINANCIAL TRUST net asset value per share slipped from 47.4p to 44.5p as at June 30 1985. The interim dividend is boosted from 0.1p to 0.3p. Net revenue was £95,554 (£400,509) equal to 0.37p (1.54p) per share.

UNITED REAL Property Trust raised pre-tax profits from £4.76m to £5.13m in the year ended April 5 1985. After tax of £2.29m (£2.05m) and minorities, profits were £2.82m (£2.65m) giving earnings per 25p share of 23.48p (22.12p). The final dividend is 9p for a higher total of 12p (10p) net. Gross rental and service income was £5.84m (£5.95m).

BOUSTEAD, investment holding company, has suffered a pre-tax loss of £80,000 in the half-year to end-June 1985, compared with profits of £26,000. Turnover fell to £22.39m (£27.42m), with an operating loss of £404,000 (£120,000). Associated companies' profits added 287,000 (£391,000). The retained loss was £231,000 (£170,000) for losses per 10p share of 0.62p (0.41p). There is no dividend.

FORSHAWS BURTONWOOD Brewery has received acceptances for 923,855 shares (97.57 per cent) of its rights issue of 25p shares at 380p. The remainder have been sold in the market at a premium.

INVESTING IN Success Equities, an investment trust, had a net asset value of 576.2p per share at the end of the six months to July 31 1985. This compares with 508p a year previous. First half net revenue advanced from £240,931 to £259,306.

THOMAS WALKER, maker of metal smallwares for the clothing industry, raised pre-tax profits from £179,000 to £250,000 for the year to June 30, 1985, on turnover of £2.41m (£2.19m). After tax of £135,000 (£47,000) and an extraordinary debit last time of £47,000 attributable profits were £116,000 (£85,000).

Earnings per 5p share fell from 2.2p to 1.93p, but the dividend is higher at 0.9p (0.825p) with a 0.7325p final.

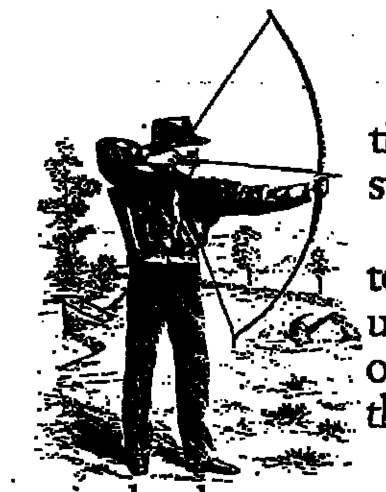
RTD GROUP has received acceptances for 3.27m shares (77.3 per cent) in respect of its rights issue. The balance has been sold in the market at a premium.

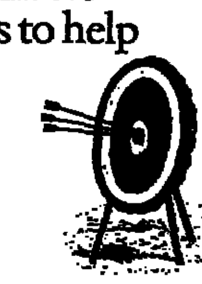
HOWARD AND WYNDHAM, publisher and retail jeweller, which returned to profits in 1984 after years of losses, has launched a rights issue of seven shares for every one held at 5p each. The issue of 15.96m shares, to raise £754,000 is being underwritten. Details will be despatched next Wednesday.

F.T. Share Information

The following securities have been added to the Share Information Service:

CCA Galleries (Section: Industrials); Electronic Rentals (Electricals); European Ferries 6.75 per cent Convertible Redeemable Cumulative Preference (Industrials); First Security Group (Electricals); Glen Abbey (Textiles); Green Property (Property); Michael (John) Design (Paper, Printing & Advertising); Nationwide Building Society 11¼ per cent Bonds 11/8/86 (Building Societies): Nordic Investment Trust (Trusts); and Yellowhammer (Paper, Printing & Advertising).





BRITISH FUNDS

"Shorts" (Lives up to Five Years)

Interest Due		Stock	Price £	Last xd	Yield Int.	Yield Red.
22 May	22 Nov	Exch. 12¼pc 1985	99[illegible]	15.4	12.25	11.68
25 Aug	25 Feb	Exch. 11¼pc '86	100¼	19.7	11.74	11.26
11Oct	11Apr	Treas. 10pcCnv 1986	99[illegible]xd	4.9	10.06	11.33
19 Nov	19 May	Treas 3pc 1986	96	12.4	3.12	9.23
19 Nov	19 May	Exch. 10½pc Cv '86	99½	12.4	10.55	11.19
12Dec	12Jun	Treas 12pc 1986	100[illegible]	7.5	11.92	10.99
10 Jan	10 Jul	Treas 8½pc 1984-86‡‡	98[illegible]	3.6	8.65	10.81
29 Apr	29 Oct	Exch. 14pc 1986	103	25.3	13.59	10.99
21 May	21 Nov	Exch. 2½pc 1986	94¼	15.4	2.65	7.66
22Jul	22Jan	Exch. 13¼pc 1987	102[illegible]	17.6	12.89	10.86
10 Aug	10 Feb	Treas 10¼pcCv '87	99¼	4.7	10.32	10.75
24Aug	24Feb	Exch 2½pc 1987	92[illegible]	18.7	2.69	7.86
6Oct	6Apr	Exch. 10½pc 1987	99¾xd	2.9	10.53	10.71
1 Nov	1 May	Funding 6½pc '85-87‡‡	94¼	25.3	6.90	10.51
12Dec	12Jne	Treas. 10pc 1987	98¾	7.5	10.13	10.76
14Jan	14Jly	Treas 3pc 1987	90¾	7.6	3.30	8.49
3May	3Nov	Treas. 12pc 1987	102	27.3	11.76	10.87
26 Jul	26 Jan	Treas 7¾pc 1985-88‡‡	94¾	19.6	8.18	10.27
10Nov	10May	Exch 10½pc '88	99¾	3.4	10.56	10.75
14Dec	14Jne	Treas 9¾pc Cv '88	97½	8.5	10.00	10.80
1Jan	1Jul	Transport 3pc '78-88	86¼	28.5	3.48	8.70
25 Apr	25 Oct	Treas. 9½pc '88	96½	19.3	9.85	10.83
22 Aug	22 Feb	Treas 11½pc 1989	101[illegible]	16.7	11.29	10.78
18 Oct	18 Apr	Treas 9½pc Cnv. '89	96[illegible]xd	11.9	9.88	10.84
15Nov	15May	Treas 3pc 1989	82½	—	3.63	8.68
14Dec	14Jun	Treas 10½pc 1989	99[illegible]	8.5	10.60	10.79
1Feb	1Aug	Exch 10pc 1989	97¾	25.6	10.27	10.83
29 Mar	29 Sep	Exch 11pc 1989	100[illegible]xd	23.8	10.94	10.81
15 Apr	15 Oct	Treas 5pc 1986-89	85¾xd	9.9	5.83	9.28
15 Jul	15 Jan	Treas 13pc 1990‡‡	107[illegible]	10.6	12.06	10.66
12 Aug	12 Feb	Exch 11pc 1990‡‡	100¼	8.7	10.92	10.70
22 Sep	22 Mar	Exch. 12¼pc 1990	106[illegible]xd	16.8	11.80	10.80
8 Nov	8 May	Treas. 3pc 1990e	77[illegible]	—	3.85	8.94

Five to Fifteen Years

Over Fifteen Years

Undated

Index-Linked

INT. BANK AND O'SEAS GOVT STERLING ISSUES

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O.F.S.

Diamond and Platinum

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Finance

Australians

Tins

Miscellaneous

NOTES

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 30 per cent and allow for value of declared distribution and rights.

- "Tap Stock".
- * Highs and Lows marked thus have been adjusted to allow for rights issues for cash.
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- Figures or report awaited.
- Not officially UK listed, dealings permitted under Rule 535(4)(a)
- USM, not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- †† Dealt in under Rule 535(3).
- # Price at time of suspension.
- ¶ Indicated dividend after pending scrip and/or rights issue: cover relates to previous dividend or forecast
- Merger bid or reorganisation in progress.
- Not comparable.
- Same interim: reduced final and/or reduced earnings indicated
- Forecast dividend, cover on earnings updated by latest interim statement.
- Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend
- Cover does not allow for shares which may also rank for dividend at a future date. No P/E ratio usually provided
- No par value.

B.Fr. Belgian Francs. Fr. French Francs. ¶¶ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Tax free. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast dividend: cover based on previous year's earnings. v Subject to local tax. x Dividend cover in excess of 100 times. y Dividend and yield based on merger terms. z Dividend and yield include a special payment: Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1984-85. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1984. K Figures based on prospectus or official estimates for 1984. M Dividend and yield based on prospectus or other official estimates for 1985-86. N Dividend and yield based on prospectus or other official estimates for 1985. P Figures based on prospectus or other official estimates for 1983. Q Gross. T Figures assumed. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xc ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Albany Inv 20p	99		Arnott	190	
Craig & Rose £1	700		CPI Hldgs	62xd	+1
Finlay Pkg 5p	65		Carroll Inds	138	-1
Higsons Brew	235		Dublin Gas	75	
Holt (Jos) 25p	720		Hall (R. & H.)	68	
IoM Stm. £1	90		Heiton Hldgs.	23	
IRISH			Irish Ropes	46	
Fund 11¼% 1988	£101⅛		Jacob (W & R.)	83	
Nat. 9¾% 84/89	£97¼		Unidare	110	+4
Fin. 13% 97/02	£107xd				

"Recent Issues" and "Rights" Page 18
(International Edition Page 24)

This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £800 per annum for each security.

INTERNATIONAL APPOINTMENTS

Insider takes over as Mannesmann chief

BY PETER BRUCE IN BONN

SIX WEEKS after the sudden death of Herr Franz Josef Weisweiler, chief executive of Mannesmann, West German steel pipes and engineering giant, the board has named Herr Werner Dieter, a company insider, to replace him.

Herr Dieter, 56, has been managing director of one of Mannesmann's fastest-growing subsidiaries, Rexroth, for 10 years. He has been in top management at Rexroth, a producer of drive components and hydraulic equipment and systems, with a turnover last year of DM1.4bn, since 1980. Mannesmann bought 50 per cent of Rexroth in 1968 and then bought out all Rexroth family interests in 1975.

Mannesmann's supervisory board is reported to have approached several outsiders to replace Herr Weisweiler, including Herr Marcus Bierich, formerly of Mannesmann and now chief executive at Robert Bosch; Herr Detlev Rohwedder, chief executive at Hoesch Steel and Herr Klaus Liesen of Ruhrgas. None of these discussions got very far.

One reason may have been that Mannesmann, with sales worldwide last year of DM 15.8bn, net profits of DM 188.46m and more than 100,000 employees, is still changing its corporate colours. Under a quiet revolution begun by Herr Weisweiler, Mannesman is attempting to generate more business from new technologies rather than continue to rely too heavily on its traditional steel pipes business, where profits are haphazard.

Herr Dieter, who studied mechanical engineering at Esslingen and began his career with Robert Bosch in 1952, represents the middle ground in the group's effort to change.

Rexroth, though it has modernised its products over the years, is neither too high-tech nor too low and the man who has been running it is thought unlikely to want to alter the slow but deliberate pace of change in the group to the detriment of either the traditional or new businesses.

The group recently reported a 16 per cent increase in turnover for the first half of 1985, saying profits were also improving. An important indicator this year of the group's success or otherwise in turning slowly away from pipes will be whether it can continue to improve sales and profitability at Hartmann and Braun, a high technology process control specialist and at Mannesmann Kienzle, a computer hardware and software subsidiary.

Top changes at American Express

By Paul Taylor in New York

AMERICAN EXPRESS, U.S. financial services group, has appointed Howard L. Clark Jr son of the company's former chairman, to the new post of chief financial officer. At the same time American Express announced the resignation of F. Gregory Fitz-Gerald, executive vice president and treasurer.

The changes are the latest in a string of senior management re-shuffles at the financial services conglomerate.

Mr Clark, aged 41, a Boston University graduate, joined American Express in 1981 as an executive vice president after working as a managing director in Blythe Eastman Pain Webber's corporate banking group.

In his new post Mr Clark will add responsibility for the $15bn-a-year financial servie's $15bn-a-year financial service's group's treasury functions, including cash management and foreign exchange, to his existing responsibilities for corporate investment, audit, tax accounting and control. He will report to Mr Louis Gersner, recently appointed American Express president.

Mr Gerstner, commenting on the changes which effectively consolidate two hitherto separate jobs at American Express, said, "given the evolution of our corporate strategy it was clear to me, as well as to Greg and Howard, that it was timely to combine the financial functions at the corporate level."

Finance director for Ericsson

BY KEVIN DONE, NORDIC CORRESPONDENT IN STOCKHOLM

L. M. ERICSSON, Swedish telecommunications and electronics group, has appointed Mr Carl Wilhelm Ros finance director and controller.

The group, which has run into problems in the past 18 months with falling profits and production difficulties, has been trying for several months to fill the post of finance director following the resignation of Mr Fritz Staffas.

Mr Staffas is joining Philipson, Invest, a car distribution, property and investment company, as managing director. His departure has coincided with the recent downturn in Ericsson's fortunes.

Mr Ros, who will take over the appointment on December 1, is executive vice-president and head of finance at Flakt, a sugsidiary of Asea.

He has spent virtually all his career in companies in the so-called Wallenberg sphere of industrial corporations in Sweden.

Apart from Flakt and Ericsson he worked for Astra from 1967 to 1975 and Alfa Laval from 1975 to 1983. He spent long periods in the U.S. and France and from 1978-80 was corporate controller at Alfa Laval.

APPOINTMENTS

Changes at Grindlays Bank group boards

In order to reflect the new role of GRINDLAYS HOLDINGS and of GRINDLAYS BANK within the Australia and New Zealand Banking Group the boards of those companies have been restructured. The board of Grindlays Holdings has supervisory and advisory responsibilities in relation to the bank and its business. The board of Grindlays Bank is responsible for implementing agreed policy and for the day-to-day management of the business. The directors of Grindlays Holdings are: Mr A. J. O. Ritchie (chairman), Mr W. J. Bailey, Lord Bancroft, Mr G. Blunden, Mr W. M. Clarke, Mr B. B. Dickinson, Mr C. J. Harper, Mr A. J. W. S. Leonard, Mr R. A. D. Nicolson, Mr B. P. Shaw, Sir William Vines.

The directors of Grindlays Bank are: Mr A. J. O. Ritchie (chairman), Mr B. B. Dickinson (managing director), Mr A. Dayal (executive director—banking), Mr L. A. W. Evans (director, investment banking division), Mr A. Hugh Smith (chairman, Capel-Cure Myers), Mr R. Isherwood (executive director—UK), Mr D. B. Valentine (executive director — Europe), Mr W. J. Bailey (group managing director, ANZ Banking Group—Melbourne) and Mr R. A. D. Nicolson (deputy group managing director, ANZ Banking Group—Melbourne).

*

Mr Noel Blows has been appointed a director of HARLOW BUTLER SAVAGE.

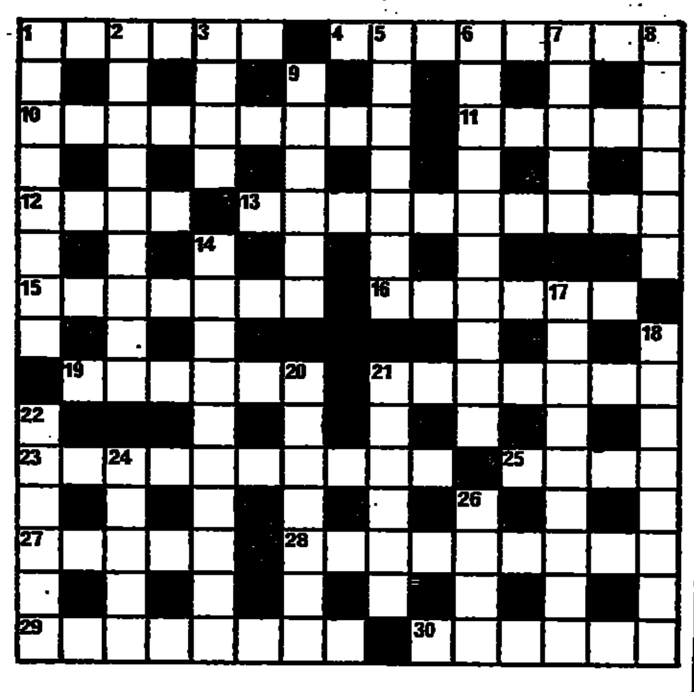
*

SUTER has appointed Mr A. E. (Tony) Paton Walsh as group company secretary. He is currently acting as a consultant to the Institute of Chartered Secretaries and Administrators at its central office in London. He takes up his new appointment on October 1.

*

HEPWORTH CERAMIC HOLDINGS has appointed Professor Roland Smith as a non-executive director and Mr John R. W. Ansdell as group finance director. Professor Roland Smith is chairman of House of Fraser and Mr John Ansdell joins from Merck Sharp and Dome where he was was an executive director.

F.T. CROSSWORD PUZZLE No. 5,822



ACROSS

1 Tag on a proxy indication to finish (6)
4 Starfish which produces a fat-soluble organic compound (8)
10 There's orange, brown and green dispersed about the island (9)
11 Troy is said to be part of a canal system (5)
12 Have a drink—make it a double (4)
13 Superior accommodation is needed for early learners (5, 5)
15 Distance previously covered by sound of bell striking (7)
16 Sodium lamp if not properly set used to cause fires (6)
19 Hardy, no; evergreen, yes (6)
21 Leading firm becomes defensive (7)
23 As a result aim for the Channel (3, 7)
25 Way to overturn a radical leader (4)
27 Was Holy Roman Empire concerned with having one Church to follow? (5)
28 Get rid of the cream: a starling's got into it (9)
29 Remaining players are gloomy (8)
30 When Noddy is back (6)

DOWN

1 Mechanise application of gold on to china (8)
2 Vessel consumed; everything up in smoke! (9)
3 Christmas story volume has disappeared (4)
5 Back numbers to be kept at first under one's hat (7)
6 See to mince pies, then take care of hors d'oeuvre (10)
7 A long time with mail order is all about composing a letter (5)
8 Hold back request for material (6)
9 Hose used on borders (6)
14 Here German master in charge is determined by grading (10)
17 Member is introducing new rule (9)
18 The way to encourage caviar supplier (8)
20 These books run in shelves (7)
21 Mischievous child starts old City church burning (6)
22 Worried less King might become eccentric (6)
24 Make an effort to hit the ball (5)
26 Lose what is regarded as equal to a mile (4)

The solution to last Saturday's prize puzzle will be published with names of winners next Saturday

LIFFE OPTIONS REPORT

Sterling Currency—£25,000 c per £. Active trading as sterling rallied 3 cents against recent decline.

Est volume Calls	Est volume Puts	Previous day's open interest Calls	Previous day's open interest Puts
906	973	11266	9716

Eurodollar Future—points of 100%. Uncertainties over economic data lead to hesitancy.

Est volume Calls	Est volume Puts	Previous day's open interest Calls	Previous day's open interest Puts
0	73	669	613

For full details of settlement prices call:
Louisa Powell of LIFFE on 01-623 0444
LIFFE, ROYAL EXCHANGE, LONDON EC3V 3PJ

FT UNIT TRUST INFORMATION SERVICE

AUTHORISED UNIT TRUSTS

[illegible]

CONTINUED OVERLEAF

AUTHORISED UNIT TRUSTS & INSURANCES

[illegible]

INSURANCES

[illegible]

INSURANCE, OVERSEAS & MONEY FUNDS

Scottish Life Investments
19 St Andrew Square, Edinburgh. 031-225 2211

Property	106.0	111.6	+0.1	—
UK Equity	128.5	135.3	-0.6	—
American	129.7	136.6	-3.9	—
Pacific	97.8	103.1	-2.5	—
European	128.5	135.2	-0.7	—
International	115.5	121.6	-2.4	—
Fixed Interest	105.0	110.7	+0.7	—
Index Linked	102.6	108.1	+0.1	—
Deposit	104.5	110.1	...	—
Managed	113.4	119.5	-1.0	—
Pens. Property	110.6	116.4	...	—
Pens. UK Equity	135.3	142.6	-0.7	—
Pens. American	135.9	143.1	-4.9	—
Pens. Pacific	99.8	105.1	-2.4	—
Pens. European	134.5	141.1	-0.9	—
Pens International	120.5	127.0	-2.7	—
Pens. Fixed Int	109.1	114.9	+0.6	—
Pens. Index Linked	105.7	111.4	+0.2	—
Pens. Deposit	111.2	117.1	...	—
Pens. Managed	118.2	124.5	-1.0	—

Scottish Mutual Assurance Society
109 St Vincent St, Glasgow. 041-248 6321

Flex End Aug 16	611.9	630.8	....	—
Pen Mngd June 28	406.4	419.0	....	—

Scottish Mutual Investments
109 St Vincent St., Glasgow. 041-248 6321

Safety Fund	99.6	104.9	+0.2	—
Growth Fund	97.1	102.3	-0.1	—
Opportunity Fund	97.0	102.2	+0.1	—
Cash Fund	96.9	102.1	...	—
European Fund	104.5	110.0	-0.3	—
Gilts & Fxd Int. Fund	100.2	105.5	+0.2	—
Index-Linked Fund	97.2	102.3	...	—
International Fund	95.0	100.1	-1.1	—
North American Fund	87.4	92.0	-1.8	—
Pacific Fund	96.1	102.0	-0.8	—
Property Fund	96.9	102.1	+0.1	—
UK Equity Fund	96.5	101.6	+0.3	—
UK Smaller Cos. Fund	99.5	104.8	+0.2	—

Scottish Provident Institution
6 St Andrews Sq, Edinburgh. 031-556 9181

Sun Life Unit Assurance Ltd.
St James Barton, Bristol BS99 7SL. 0272 426911

Managed Acc.	322.8	339.8	-0.2	—
Property Acc.	198.7	209.2	...	—
Equity Acc.	450.9	474.7	+0.2	—
Fixed Interest Acc.	187.2	197.1	+0.5	—
Index-Linked Acc.	105.7	111.3	+0.1	—
Cash Acc.	168.9	177.8	+0.1	—
American Equity Acc.	174.7	183.9	-1.8	—
U.S. Bonds Acc.	105.0	110.6	-2.8	—
Japan Acc.	114.1	120.2	-0.6	—
Pacific Acc.	106.2	111.7	+1.3	—
Far Eastern Acc.	235.3	247.7	+0.4	—
International Acc.	229.4	241.5	-0.9	—
U.S. Dollar Acc.	101.6	107.0	-1.7	—
Yen Acc.	96.3	101.4	-1.6	—
European Currency Acc.	96.2	101.3	-0.5	—
Distribution	146.6	154.4	-0.1	4.77

Sun Life Pensions Management Ltd
(funds for individual pension contracts)

Pens. Managed Acc.	324.4	341.5	+0.1	—
Pens. Property Acc.	164.4	173.1	...	—
Pens. Equity Acc.	421.7	443.9	-0.8	—
Pens. F. Interest Acc.	177.7	187.1	+0.6	—
Pens. Ind. Lnkd. Acc.	107.8	113.5	+0.2	—
Pens. Cash Acc.	173.5	182.7	...	—
Pens. Amer. Equity Acc.	141.5	149.0	-1.5	—
Pens. U.S. Bonds Acc.	119.2	125.5	-1.3	—
Pens. Japan Acc.	114.6	120.7	-1.1	—
Pens. Pacific Acc.	130.7	137.6	+2.3	—
Pens. Far Eastern Acc.	366.8	386.2	+8.0	—
Pens. Internat. Acc.	297.5	313.2	-1.1	—
Pens. U.S. Dollar Acc.	106.8	112.5	-2.3	—
Pens. Yen Acc.	99.6	104.9	-1.9	—
Pens. Euro. Curr. Acc.	96.4	101.5	-0.9	—

Swiss Life Pensions Ltd
99-101 London Rd, Sevenoaks. 0732-450161

Equity	£184.95	190.66	...	—
Fixed Int.	£134.48	135.15	...	—
Index Linked	£111.31	111.86	...	—
Property	£154.62	159.40	...	—
Cash	£122.14	122.14	...	—
Mixed	£170.19	175.45	...	—
International	£131.53	135.59	...	—

Next sub day Sept. 18.

TSB Life Ltd

...

World Fund SA
2 Boulevard Royal, Luxembourg

World Fund NAV	$11.27	-0.17	—

World Wide Growth Management
10a, Boulevard Royal, Luxembourg

Worldwide Gth Fd.	$12.94	+0.011	—

Inv. Adv., M. & G. Inv. Mngt., Ltd, London

Yamaichi Dynamic Mngt Co SA
10A Boulevard Royal, Luxembourg

Advanced Tech	$9.18	-0.04	—
Dynamic Gwth Fd.	$8.26	-0.03	—

Money Market Trust Funds

	Gross	Net	Gr Equiv CAR	Int Cr
The Charities Deposit Fund 77 London Wall, London EC2N 1DB 01-588 1815				
Deposit	11.40		—	3-Mth
The Money Market Trust 63 Qn Victoria St, EC4N 4ST. 01-236 0952				
Call Fnd	11.16	8.34	12.37	6-mth
7-day Fnd	11.59	8.66	12.86	6-mth
Oppenheimer Money Management Ltd 66 Cannon St, EC4N 6AE. 01-236 1425				
Call Fnd	11.12	8.31	12.22	6-Mth
7-day Fund	11.58	8.66	12.75	6-Mth
Dollar		6.81	—	6-Mth
Money Mngt. Acct.	10.87	8.13	12.12	3-Mth

Money Market Bank Accounts

	Gross	Net	Gr Equiv CAR	Int Cr
Adam & Co. plc 22 Charlotte Sq. Edinburgh, EH2 4DF 031-225 8484				
Full Service Cur Acc.	11.25	8.00	11.93	Qtr
Aitken Hume 30 City Road, EC1Y 2AY. 01-638 6070				
Treasury Acc.	11.25	8.41	12.58	Qtr
Hih Int. Chq.	11.125	8.32	12.56	Mth
Bank of Scotland 38 Threadneedle St, EC2P 2EH. 01-628 8060				
Money Mkt Cheque Acc.	10.85	8.11	12.08	Mth
...				
Royal Bank of Scotland plc 24 Lombard St, London EC3V 9BA 031-557 0201				
Premium Account	11.0	8.23	12.27	Qtr
Save & Prosper/Robert Fleming 28 Western Rd, Romford RM1 3LB. 0708 66966				
H.I.B.A.	10.70	8.00	11.89	Daily
Tyndall & Co 29-33 Princess Victoria St, Bristol. 0272 732241				
Demand Acc.	11.23	8.39	12.53	Qtr
Money Acc.	11.20	8.37	12.50	Qtr
J. Henry Schroder Wagg & Co Ltd Enterprise House, Portsmouth 0705 827733				
Special Acc.	11.00	8.22	12.40	Mth
Over £10,000	11.25	8.41	12.70	Mth
Western Trust & Savings Limited The Moneycentre, Plymouth PL 1SE 0752 24141				
High Int Chq Acc.	11.81	8.83	13.04	Qtr

NOTES—Gross: rate to those exempt from composite rate of tax. Net: actual rate after deduction of CRT. Gr Equiv CAR: Gross equivalent to basic rate taxpayers—compounded annual rate. Int Cr: frequency interest credited.

NOTES

Prices are in pence unless otherwise indicated and those designated $ with no prefix refer to U.S. dollars. Yields % (shown in last column) allow for all buying expenses. a Offered prices include all expenses. b Today's prices. c Yield based on offer price d Estimated. g Today's opening price. h Distribution free of UK taxes. p Periodic premium insurance plans s Single premium insurance x Offered price includes all expenses except agent's commission. y Offered price includes all expenses if bought through managers. z Previous day's price. ¶ Guernsey gross. ‡ Suspended ♦ Yield before Jersey tax. † Ex-subdivision. ‡‡ Only available to charitable bodies. ф Yield column shows annualised rates of NAV increase ad ex dividend.

OPTIONS

3-month call rates

A selection of Options traded is given on the London Stock Exchange Report Page.

WORLD STOCK MARKETS

Indices

NEW YORK

DOW JONES

	Sept. 13	Sept. 12	Sept. 11	Sept. 10	Sept. 9	1985 High	1985 Low	Since Comp'n High	Since Comp'n Low
●Industri'ls	1307.68	1312.88	1319.44	1333.46	1339.27	1359.54 (19/7)	1184.36 (4/1)	1359.54 (19/7/85)	41.22 (2/7/32)
Home Bnds	79.51	79.41	79.58	79.78	80.07	80.65 (15/7)	72.27 (29/3)	—	—
Transport...	656.47	663.27	669.36	676.73	679.42	708.6 (17/7)	553.05 (4/1)	702.6 (17/7/85)	12.32 (8/7/32)
Utilities ...	152.60	152.65	155.11	155.96	156.75	159.91 (12/7)	146.54 (4/1)	168.91 (12/7/85)	10.5 (28/4/42)
Trading Vol 000†	111,390	107,870	100,380	104,730	89,850	—	—	—	—

●Day's High 1320.12 (1327.40) low 1296.71 (1307.01)

Industrial div. yield %	Aug 30	Aug 23	Aug 16	year ago (approx)
	4.61	4.66	4.68	4.72

STANDARD AND POORS

	Sept. 13	Sept. 12	Sept. 11	Sept. 10	Sept. 9	1985 High	1985 Low	Since Comp'n High	Since Comp'n Low
Indust'ls....	204.05	204.94	206.16	206.15	209.46	215.83 (18/7)	128.24 (4/1)	215.83 (18/7/85)	3.62 (30/6/32)
Comp's,te.	182.91	183.69	185.03	186.90	188.25	195.65 (17/7)	163.68 (4/1)	195.65 (17/7/85)	4.40 (1/6/32)

Industrial div. yield	Sept. 4	Aug. 28	Aug. 21	year ago (approx)
	3.75	3.72	3.72	3.91

Industrial P/E ratio

Long Gov. Bond yield

N.Y.S.E. ALL COMMON

Rises and Falls

TORONTO

MONTREAL Portfolio

NEW YORK ACTIVE STOCKS

AUSTRALIA · AUSTRIA · BELGIUM · DENMARK · FRANCE · GERMANY · HONG KONG · ITALY · JAPAN · NETHERLANDS · NORWAY · SINGAPORE · SOUTH AFRICA · SPAIN · SWEDEN · SWITZERLAND · WORLD

OVER-THE-COUNTER *Nasdaq national market, closing prices, September 13*

Continued from Page 33

CANADA

TORONTO
Closing prices September 13

MONTREAL
Closing prices September 13

DENMARK

FRANCE

GERMANY

NETHERLANDS

AUSTRIA

BELGIUM/LUXEMBOURG

AUSTRALIA

ITALY

SWEDEN

SINGAPORE

SOUTH AFRICA

HONG KONG

SWITZERLAND

NORWAY

JAPAN

High	Low	Stock	Price Yen
1,350	807	Toyo Seikan	1,330
1,380	1,180	Toyota Motor	1,160
274	212	UBE Inds.	243
3,440	1,260	Victor	1,370
836	650	Yamaha	651
925	680	Yamaichi Sec.	790
867	610	Yamazaki	820
789	351	Yasuda Fire	675

NOTES—Prices on this page are as quoted on the individual exchanges and are last traded prices. § Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all.

SPAIN

Closing prices, September 13

NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
24⅝	18	AAR	.56	2.5	15	36	22⅞	22½	22⅝	
17⅜	9¾	AGS			13	420	16½	16⅛	16⅛	
16½	9⅝	AMCA				12	10¾	10½	10½	−¼
21½	13	AMF	.25j		96	149	13⅝	13⅜	13½	
50¾	25¼	AMR			7	9192	42⅝	40¾	41⅞	+⅛
23⅝	18⅝	AMR	pf2.18	9.4		25	23¼	23¼	23¼	+⅛
25⅞	23	ANR	pf 2.67	11.		2	23¼	23¼	23¼	
22	19	ANR	pf 2.12	11.		1	20	20	20	−⅜
14¼	7⅜	APL				18	8⅛	8⅞	8⅞	−¼
31⅞	34⅛	ASA		25.2		511	38⅞	38	38⅝	+⅜
27	11⅝	AVX	.32	2.7	17	133	11⅞	11¾	11¾	+⅛
28⅛	18⅛	AZP	2.72	11.	7	1571	24	23⅝	23¾	−⅛
50	36¾	AbtLab	1.40	2.5	15	2061	55¾	54⅛	55	−¾
25⅞	20	AccoW	s.50	2.4	16	145	21½	21	21	−⅝
24¾	12½	AcmeC	.40	3.0		55	13½	13⅛	13⅛	−¼
10½	7⅜	AcmeE	.32b	4.2	11	10	7⅝	7⅝	7⅝	
19	15½	AdaEx	1.92e	11.		68	17⅜	17⅛	17⅛	−⅛
20	13½	AdmMl	.32	1.9	7	25	17	17	17	
17⅞	8⅝	AdvSys	.53t	4.3	18	146	12¾	12⅝	12⅝	−¼
40⅜	22⅛	AMD			16	3888	26¼	25⅛	26⅛	+⅜
12⅞	6⅞	Advest	.12	1.4	19	315	8¾	8⅛	8⅝	−⅛
15⅞	9½	Aerflex			11	90	13½	13	13	−⅛
49⅝	32⅜	AetnLf	2.64	6.2	15	1247	42⅞	42¼	42¾	
57½	52⅜	AetL	pf5.79e	10.		156	55⅝	55	55⅝	+⅜

Continued on Page 33

NYSE COMPOSITE CLOSING PRICES

Continued from Page 32

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
53⅛	38¾	Raythn 1.60		3.2	12	4376	49½	48⅝	49⅝	+⅝
11¼	7⅜	ReadBt .40		5.6		441	7⅜	d7⅛	7⅛	−¼
21⅞	16⅝	RdBat pf2.13		13.		10	16⅞	16½	16½	−¼
24½	17½	RdBat pf3.12e		17.		1	17⅞	17⅞	17⅞	+⅜
16⅜	11	RltRef 1.33e		10.	10	30	13	12⅞	13	−⅛
17¾	8⅝	RecnEq			15	197	9⅝	9⅝	9⅝	
12⅜	7½	Redmn .30		3.9	14	202	7⅞	d7⅝	7⅝	
12⅞	8¼	Reece			29	97	9¼	9⅛	9⅛	−¼
1⅜	½	Regal				13	9-16	½	9-16	+1-16
43⅛	27⅞	ReichC .80		2.1	13	270	38¼	38	38¼	−⅛
10⅞	4½	RepAir			4	2325	8⅞	8⅝	8¾	+¼
3	1¼	RepA wt				374	2	1¾	2	+⅛
12¾	5⅞	RpGyps .30		4.0	8	207	7⅝	7¼	7½	+⅛
49¾	35¼	RepNY 1.64		3.5	8	104	47½	47¼	47¼	
27¾	23¼	RNY pfC3.13		12.		8	25⅞	25⅝	25⅞	+⅛
57¾	52½	RNY pfA6.24e		11.		200	55¼	55	55¼	
34½	24⅝	RepBk 1.64		5.5	6	259	30⅞	30	30	−⅞
30	23⅛	RepBk pf2.12		7.6		13	27⅛	26⅝	26⅝	−¾
103	86¾	RepBk adj7.71e		7.6		150	101⅝	101⅝	101⅝	
24⅞	15½	RshCot .32		1.4		60	23	22¾	22⅞	
31½	22½	Revco .80		3.1	25	1175	26⅛	25½	25⅝	+⅝
16¼	9⅞	Revere			2	129	16⅛	15¾	15⅞	−⅛
47¼	32½	Revlon 1.84		4.3	14	4875	43¼	41⅝	43¼	−⅝
24⅜	17¾	Rexhm .70		3.1	14	22	22½	22¼	22¼	−⅜
16⅞	11¾	Rexnrd .44		3.3	9	538	13⅝	13½	13½	
32½	26	Reynlns 1.40		5.4	6	6739	26½	d25½	25⅞	−⅝
112¼	102½	Reyln pf				5	108½	108½	108½	
125¼	123⅝	Reyl pfC				12344	r127	125	127	+2
41¼	27⅞	ReyMtl 1		3.1	8	602	33⅝	32⅝	32⅝	−⅜
87	81	ReyM pf4.50		6.2		21	74	73	73	−1⅝
25⅝	24⅞	ReyM pf2.30		9.4		1099	24⅞	d24½	24½	−⅜
49½	26⅝	RchVck 1.48		3.0	16	10430	49	46	48¾	+2¾
29	17¼	RiegelT90j		3.9		16	23	23	23	
33½	22	RiteAid .50		2.2	14	2614	22⅝	d21⅞	22⅝	+⅝
7⅞	2½	RvrOk n			7	79	3⅛	2⅞	3	
38⅜	28⅛	Robshw 1.12		3.4	8	40	34	33¼	33¼	−¾
44½	26	Robtsn 1.60		6.1		44	26⅜	26⅛	26¼	+¼
24⅜	6½	vjRobins				1501	7⅛	6⅝	6⅞	−⅜
24⅞	16⅝	RochG 2.20		10.	6	841	21¼	20½	21	−¼
42⅛	30⅜	RochTl 2.44		6.8	9	58	36⅛	35⅝	35¾	−⅜
20⅝	19½	RckCtr n				12847	19⅞	19⅝	19⅞	+⅛
41¾	27¾	Rockwl 1.12		2.9	10	3029	38⅝	38	38½	−1⅛
73	55¾	RohmH 2.20		3.5	10	209	62¼	62⅛	62¼	+⅜
68	39⅝	Rohrln			11	1027	64	62½	63½	+¾
27¼	12¾	RolnCm .40		1.6	30	157	25⅜	25	25	−⅜
35⅝	10½	RolinE s .10		.4	21	376	22⅞	22¼	22¼	−⅝
18¼	5¼	RolnE wi				2	11¾	11½	11½	−½
12⅜	8¾	Rollins .48		4.0	17	93	11½	11⅜	11½	+⅛
3⅞	2	Ronson				62	2¼	2⅛	2⅛	
19	11	Roper .64		5.6	13	114	11⅜	11	11⅜	+⅜
40¼	24	Rorer 1.12		2.9	19	3334	39½	38¼	38¼	−⅞
13	7⅝	Rowan .12		1.5	47	343	8⅛	8	8	−⅛
62⅞	46	RoylD 3.29e		5.5	6	3096	60⅜	59⅜	59¾	−⅛
17	9¾	Roylnt s			17	583	14½	14¼	14⅜	−⅜
28⅛	18¾	Rubmds				73	27⅞	27¼	27¼	−½
28	14¾	RussBr			11	362	18	17¼	17½	
20¾	15⅜	RusTog .76		3.9	10	22	19½	19½	19½	−⅛
31¼	19	RyanH 1		4.2	9	57	24¼	24	24	−⅜
30⅞	22	Ryder s .60		2.1	11	1779	28⅝	27⅞	28¼	−⅜
29	17	Ryland .66		2.9	14	35	22⅝	22⅝	22⅝	
20⅛	8½	Rymer			5	55	16⅝	16¼	16½	−¼
13⅝	11½	Rymer pf1.17		10.		88	11¾	11½	11⅝	−⅛

X Y Z

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
55½	35¼	Xerox 3		5.9	14	3226	51⅛	50⅜	50½	−⅝
55½	46½	Xerox pf5.45		10.		2217	54	53⅞	53⅞	+⅛
30¼	24⅝	ZaleCp 1.32		4.9	9	47	26¾	26¾	26¾	−⅛
21½	7½	Zapata .12		1.6	54	248	7⅝	7½	7⅝	
57⅝	31⅛	Zayre s .48		1.0	16	265	51½	50	50	−⅝
27	17½	ZenithE			11	1175	18	17⅝	17⅞	−⅛
21⅞	15¾	Zero s .32		1.7	16	102	18¼	18¾	18¾	−½
37¾	22¾	Zurnin 1.32		3.6	12	416	36⅞	36¼	36½	−½

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 per cent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividends are annual disbursements based on the latest declaration.

a-dividend also extra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E-price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begins with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE CLOSING PRICES

Closing prices September 13

OVER-THE-COUNTER

Nasdaq national market, closing prices, September 13

Continued on Page 31

CURRENCIES, MONEY and CAPITAL MARKETS

FOREIGN EXCHANGES

Further analysis disappoints

BY COLIN MILLHAM

Last week's U.S. statistics looked encouraging at first sight, but proved disappointing on further analysis. The dollar steamed ahead until Thursday, when the market suddenly got *cold feet and wondered whether* the U.S. economy really was about to show strong increased growth.

Everything hinged around Friday's retail sales and industrial production figures, and the implications for this Friday's flash estimate of third quarter U.S. gross national product growth.

Earlier data on U.S. trade and unemployment had been very encouraging, with the July trade deficit of $10.51bn much lower than expected and manufacturing employment increasing.

A period of steady dollar buying followed these figures, only faltering on Thursday, when the U.S. currency had climbed by over 8 per cent from the year's low of DM 2.7425 on August 22. At DM 2.98 on Thursday dealers moved to square positions ahead of the next day's figures.

A fall of 0.3 per cent in August producer prices was better than expected, but did nothing to support the dollar, because falling inflation will not encourage the Federal Reserve to tighten monetary policy, even if money supply is above target.

Industrial production rose by only 0.3 per cent, compared with some forecasts of 0.7 per cent, and most estimates in the region of 0.5 per cent.

But the most important figure was probably retail sales. An increase of around 1.5 per cent to 2 per cent was anticipated, and the outcome was a rise of 1.9 per cent. *This* would probably have suppored the dollar, and possibly helped it climb back towards DM 2.95, but when auto sales were taken out the increase was a mere 0.4 per cent. It was already known that the 71 per cent rise in August car sales was largely the result of price discounting and low *interest rate offers* by the large U.S. producers, and at the same time the July retail sales figure was revised to an increase of 0.2 per cent from 0.4 per cent.

The market felt these figures did not show a broad picture of economic growth, and the dollar finished below DM 2.90, down 3 pfennigs on the week, and 8 pfennigs lower than Thursday's peak.

STERLING INDEX

	Sept 13	Previous
8.30 am	80.6	79.8
9.00 am	81.1	79.9
10.00 am	81.3	79.8
11.00 am	81.0	79.7
Noon	81.2	79.7
1.00 pm	81.2	79.9
2.00 pm	81.4	80.0
3.00 pm	81.2	79.9
4.00 pm	81.0	80.2

£ IN NEW YORK

	Sept. 13	Prev. close
£ Spot	$1.3380-1.3400	$1.3445-1.3465
1 month	0.35-0.34pm	0.37-0.34 pm
3 months	0.96-0.93pm	1.01-0.97 pm
12 months	2.63-2.43pm	2.60-2.50 pm

Forward premiums and discounts apply to the U.S. dollar

FORWARD RATES AGAINST STERLING

	Spot	1-month	3-month	6-month	12-month
Dollar	1.3410	1.3376	1.3315	1.3240	1.3158
D-Mark	3.8875	3.8657	3.8229	3.7660	3.6647
French Franc	11.86	11.8443	11.8223	11.8154	11.9008
Swiss Franc	3.2050	3.1870	3.1519	3.1042	3.0187
Japanese Yen	324.50	323.00	320.60	317.00	310.70

POUND SPOT—FORWARD AGAINST POUND

Sept 13	Day's spread	Close	One month	% p.a.	Three months	% p.a.
U.S.	1.3160-1.3470	1.3405-1.3415	0.36-0.33c pm	3.09	0.98-0.93pm	2.85
Canada	1.8255-1.8437	1.8322-1.8383	0.42-0.33c pm	2.45	1.03-0.89pm	2.09
Nethlnd.	4.35-4.40	4.33-4.39	2¼-1⅞c pm	5.47	6-5¼pm	5.36
Belgium	78.14-79.16	78.80-78.90	19-12c pm	2.36	47-34pm	2.05
Denmark	14.01½-14.13¼	14.09-14.10	3½-2¼ore pm	2.55	9⅞-8⅞pm	2.63
Ireland	1.2477-1.2547	1.2500-1.2510	0.22-0.07p pm	1.39	0.57-0.22pm	1.26
W. Ger.	3.86¼-3.92½	3.88¼-3.89¼	2¼-2⅛pf pm	6.75	6⅛-6⅛pm	6.62
Portugal	230¼-236½	232½-235½	70-410c dis	−12.31	430-1440dis	−15.99
Spain	228-231	229-230¼	10-50c dis	−1.57	40-165dis	−1.79
Italy	2,584½-2,620¼	2,607½-2,608½	1 lire pm-4 dis	−1.15	4-11dis	−1.15
Norway	11.32¼-11.39	11.38-11.39	¼-1¼ore dis	−0.79	2⅞-3⅛dis	−1.12
France	11.79¼-11.96¼	11.85½-11.86½	1⅞-1⅛c pm	1.58	4⅛-3⅛pm	1.29
Sweden	11.37½-11.45¼	11.44¼-11.45¼	3¼-4¼ore dis	−3.93	10¼-11¼dis	−3.78
Japan	320¼-325½	324-325	1.39-1.29y pm	4.96	3.94-3.81pm	4.78
Austria	27.17-27.42	27.27-27.37	15⅞-15⅛gro pm	6.31	43-38¼pm	5.98
Switz.	3.18¼-3.23¼	3.20-3.21	1⅞-1⅛c pm	6.79	5⅞-5¼pm	6.71

Belgian rate is for convertible francs. Financial franc 78.95-79.05. Six-month forward dollar 1.73-1.68c pm, 12-month 2.60-2.45c pm.

OTHER CURRENCIES

Sept 13	£	$		£ Note Rates
Argentina Austl.	1.0680-1.0710	0.8000-0.8010	Austria	27.30-27.60
Australia Dollar	1.9705-1.9755	1.4730-1.4750	Belgium	79.00-79.80
Brazil Cruzeiro	9,905-9,968	7,420-7,455	Denmark	14.08-14.22
Finland Markka	8.1985-8.2305	6.1100-6.1150	France	11.83-11.95
Greek Drachma	186.03-189.04	139.54-142.46	Germany	3.88-3.92
Hongkong Dollar	10.4275-10.4575	7.8100-7.8150	Italy	2590-2630
Iran Rial	118.00*	90.50*	Japan	325-338
KuwaitDinar(KD)	0.4098-0.4114	0.30675-0.30685	Netherlands	4.36-4.40
LuxembourgFr.	78.80-78.90	58.75-58.85	Norway	11.32-11.43
Malaysia Ringgit	3.3475-3.3650	2.5075-2.5125	Portugal	229-245
NewZealand Dlr.	2.5540-2.5630	1.9030-1.9065	Spain	223-232
Saudi Arab Riyal	4.8725-4.8875	3.6390-3.6460	Sweden	11.40-11.52
Singapore Dollar	3.0370-3.0575	2.2760-2.2800	Switzerland	3.20-3.23
Sth African Rand	3.2555-3.2955	2.4330-2.4650	United States	1.33½-1.34½
U.A.E. Dirham	4.9010-4.9160	3.6720-3.6750	Yugoslavia	410-460

* Selling rate.

Rand Financial Rate: 2.6145-2.6645 ($) and 3.4980-3.5920 (£)

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu September 13	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	44.8320	45.0481	+0.48	+0.77	±1.5425
Danish Krone	8.12857	8.07667	−0.64	−0.35	±1.6421
German D-Mark	2.23840	2.23003	−0.37	−0.08	±1.1455
French Franc	6.86402	6.79527	−1.00	−0.71	±1.3654
Dutch Guilder	2.52208	2.50467	−0.69	−0.40	±1.5162
Irish Punt	0.724578	0.716644	−1.09	−0.80	±1.6673
Italian Lira	1520.60	1492.55	−1.84	−1.84	±4.0856

Changes are for Ecu, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

BANK OF ENGLAND TREASURY BILL TENDER

	Sept 13	Sept. 6		Sept 13	Sept. 6
Bills on offer	£100m	£100m	Top Accepted rate of discount	11.1305%	11.0904%
Total of applications	£279.15m	£306.66m	Average rate of discount	11.0911%	11.0480%
Total allocated	£100m	£100m	*Average yield*	11.41%	11.36%
Minimum accepted bid	£97.225	£97.235	Amount on offer at next tender	£100m	£100m
Allotment at minimum level	8%	16%			

DOLLAR SPOT—FORWARD AGAINST DOLLAR

Sept 13	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.3160-1.3470	1.3405-1.3415	0.36-0.33c pm	3.09	0.98-0.93pm	2.85
Ireland†	1.0577-1.0785	1.0730-1.0745	0.20-0.10c pm	1.68	0.55-0.30pm	1.59
Canada	1.3715-1.3756	1.3715-1.3720	0.06-0.08c dis	−0.66	0.24-0.29dis	−0.77
Nethlnd.	3.2450-3.3065	3.2695-3.2705	0.68-0.65c pm	2.44	2.14-2.11pm	2.59
Belgium	56.75-59.45	58.75-58.85	3-5c dis	−0.80	14-17dis	−1.03
Denmark	10.46½-10.67	10.50¼-10.51¼	¼-¾ore dis	−0.57	¼-1dis	−0.26
W. Ger.	2.8800-2.9480	2.8985-2.8995	0.94-0.89pf pm	3.76	2.87-2.82pm	3.39
Portugal	174-175½	174-175½	100-350c dis	−15.45	450-1200dis	−18.88
Spain	171.00-173.45	171.00-171.50	40-70c dis	−3.83	150-225dis	−4.35
Italy	1,940-1,963½	1,944½-1,945½	6½-8 lire dis	−4.48	20½-22dis	−4.38
Norway	8.44-8.59¼	8.48¾-8.49¼	2½-3ore dis	−3.88	8¼-8¾dis	−4.00
France	8.82½-8.98	8.84¼-8.84¾	0.95-1.10c dis	−1.38	3.10-3.40dis	−1.46
Sweden	8.51-8.62½	8.53¾-8.54¾	4¾-5¼ore dis	−7.01	14-14½dis	−6.66
Japan	241.40-243.75	241.90-242.00	0.39-0.35y pm	1.83	1.28-1.23pm	2.07
Austria	20.28-20.69¾	20.28-20.35	5¼-5gro pm	3.15	17¼-14¼pm	3.12
Switz.	2.3850-2.4315	2.3895-2.3905	0.76-0.70c pm	3.64	2.31-2.25pm	3.79

† UK and Ireland are quoted in U.S. currency. Forward premiums and discounts apply to the U.S dollar and not to the individual currency. Belgian rate is for convertible francs. Financial franc 58.95-59.05.

CURRENCY MOVEMENTS

Sept. 13	Bank of England Index	Morgan Guaranty Change %
Sterling	81.0	−9.5
U.S. dollar	141.0	+26.4
Canadian dollar	86.3	−7.9
Austrian schilling	115.3	+4.4
Belgian franc	90.6	−10.6
Danish Kroner	79.0	−5.5
Deutsche mark	124.7	+7.9
Swiss franc	146.0	+11.1
Guilder	115.4	+4.4
French franc	66.8	−14.1
Lire	44.0	−20.3
Yen	156.7	+12.3

Morgan Guaranty changes: average 1980-1982=100. Bank of England index (base average 1975=100).

CURRENCY RATES

Sept. 13	Bank rate %	Special Drawing Rights	European Currency Unit
Sterling	—	0.760157	0.572832
U.S.$	7½	1.01695	0.765018
Canadian $	9.27	*	1.05113
Austria Sch.	4	20.8168	15.6676
Belgian Fr.	9½	59.8598	45.0481
Danish Kr	7	10.7361	8.07667
D mark	4	2.96556	2.23003
Guilder	5	3.32927	2.50467
French Fr	9½	9.03434	6.79527
Lira	16½	1981.10	1492.55
Yen	5	247.282	185.326
Norway Kr	8	8.64827	6.49882
Span'h Pta.	—	174.835	131.736
Swedish K	10½	8.68688	6.53899
Swiss Fr	4	2.44488	1.83948
Greek Dr'ch	20½	142.096	106.621
Irish Punt	13½	N/A	0.716644

*C$/SDR rate for September 12: 1.3846

EXCHANGE CROSS RATES

Sept. 13	Pound St'ling	U.S. Dollar	Deutschem'k	J'panese Yen	FrenchFranc	Swiss Franc	Dutch Guild	Italian Lira	Canada Dollar	Belgian Franc
Pound Sterling	1.	1.341	3.886	324.5	11.86	3.205	4.385	2608.	1.835	78.85
U.S. Dollar	0.746	1.	2.899	242.0	8.845	2.390	3.270	1945.	1.369	58.80
Deutschemark	0.257	0.345	1.	83.47	3.051	0.824	1.128	670.9	0.472	20.28
Japanese Yen 1,000	3.083	4.135	11.98	1000.	36.56	9.877	13.51	8037.	5.656	243.0
French Franc 10	0.843	1.131	3.276	273.6	10.	2.702	3.697	2199	1.547	66.48
Swiss Franc	0.312	0.418	1.213	101.3	3.700	1.	1.368	813.7	0.573	24.60
Dutch Guilder	0.228	0.306	0.887	74.00	2.705	0.731	1.	594.8	0.419	17.98
Italian Lira 1,000	0.383	0.514	1.491	124.4	4.548	1.229	1.681	1000.	0.704	30.23
Canadian Dollar	0.545	0.731	2.118	176.8	6.462	1.746	2.389	1421.	1.	42.96
Belgian Franc 100	1.268	1.701	4.930	411.5	15.04	4.065	5.561	3308.	2.328	100.

EURO-CURRENCY INTEREST RATES (Market closing rates)

Sept. 13	Sterling	U.S. Dollar	Canadian Dollar	Dutch Guilder	Swiss Franc	D-mark	French Franc	Italian Lira	Belgian Franc Conv.	Belgian Franc Fin.	Yen	Danish Krone
Short-term	11¼-11½	7⅝-7¾	7¾-8¼	5¾-6	1¼-2	4¼-4⅜	9¼-9½	10-13	8-8½	8¼-8¾	6⅛-6⅜	8-8½
7 days' notice	11¼-11½	7⅞-8	8¼-8½	5¾-6	1¾-1⅞	4¼-4⅜	9⅜-9⅝	12¼-14	8¼-9¼	8⅞-9⅛	6⅛-6⅜	8¼-9¼
Month	11½-11⅞	8-8⅛	8⅝-8⅞	5¾-5⅞	4⅝-4⅞	4⅜-4½	9⅝-9¾	12⅝-15	8¾-9	8⅞-9⅛	6⅛-6¼	8⅞-9⅛
Three months	11⅞-11⅝	8⅛-8⅜	9-9¼	5¾-5⅞	4¾-4⅞	4½-4⅝	9¾-10	13¾-15	9-9¼	8⅞-9⅛	6⅛-6⅜	9⅜-9⅝
Six months	11⅝-11⅞	8⅜-8⅝	9⅜-9⅝	5¾-5⅞	4¾-4⅞	4½-4⅝	10⅛-10⅜	13-15½	9¼-9½	9-9¼	6¼-6⅜	9⅝-9⅞
One year	11½-11⅞	8⅝-8⅞	9⅞-10⅛	6-6⅛	4¾-4⅞	4⅝-4¾	11⅛-11⅜	13½-14	9⅜-10⅛	9⅝-10⅛	6⅜-6½	10¼-10½

Asian $ (closing rates in Singapore): Short-term 7⅝-8⅝ per cent; seven days 8⅛-8⅛ per cent; one month 8⅛-8⅛ per cent; three months 8⅛-8⅞ per cent; six months 8⅝-8⅞ per cent; one year 8⅞-9⅛ per cent. Long-term Eurodollars: two years 9⅛-9⅝ per cent; three years 9⅞-10⅛ per cent; four years 10⅛-10⅝ per cent; five years 10⅛-10⅝ per cent nominal. Short-term rates are call for U.S. dollars and Japanese yen; others two days' notice.

MONEY MARKETS

No encouragement for lower rates

UK clearing banks base lending rate 11½ per cent since July 30.

Money supply figures on both sides of the Atlantic disappointed last week, but with attention focused on other events had very little impact. Weekly U.S. M1 was expected to be flat, but rose by $1.4bn. In the month of August M1 rose $10.2bn, or at an annualised rate of 11.1 per cent, well above the Federal Reserve's target range of 3 per cent to 8 per cent for the second half of the year.

This is likely to severely limit any prospect of a cut in the U.S. discount rate in the next few months, unless economic growth proves much worse than some recent figures suggest and forces a reduction in interest rates.

At the time of last week's U.S. money supply announcement attention was already turned towards an imminent batch of economic figures, and the rise in M1 was largely ignored.

The increase of about 2 per cent in sterling M3 money supply published on Tuesday was equally disappointing, and this time there were no mitigating circumstances, in the form of heavily oversubscribed share issues. Growth in M3 over the last six months has been 16½ per cent, compared with the Treasury's target range of 5 per cent to 9 per cent. The rate of expansion over the last three months is slightly better at 15 per cent, while the 12 month rate is 13½ per cent.

These are not good figures, but the level of London interest rates is so high, at around 11½-11⅝ per cent, compared with an inflation rate falling to 6.2 per cent in August, according to the retail prices index announced Friday, that the market has little fear of any increase.

On Friday sterling interbank rates were the lowest of the week, confirming the present clearing bank base rate level of 11½ per cent.

Sterling's apparent fragility meant there was little hope of lower base rates, even if the money supply figures had been much better. The pound threatened the $1.30 level several times, but in the present perverse markets bad money supply figures tend to underpin a currency, because they suggest central banks will be reluctant to cut interest rates.

At the moment it seems the Federal Reserve and the Bank of England will not wish to endorse any change in interest rates for some time.

MONEY RATES

Sept. 13	Frankfurt	Paris	Zurich	Amst'dam	Tokyo	Milan	Brussels	Dublin
Overnight	4.65-4.85	9⅝	1½-2½	5¾-5⅞	6.34375	14½-14⅞	10.10	—
One Month	4.5-4.7	9½-9⅝	4¼-4⅜	5¾-5⅞	6.46875	13½-14⅛	9½-9⅝	9⅝-9⅞
Two Months	4.6-4.7	9½-9⅝	4⅜-4½	—	—	—	—	9⅞-10
Three Months	4.6-4.7	9⅝-9¾	4⅜-4½	5⅝-5¾	6.40625	13⅞-14⅛	9½-9⅝	9⅞-10⅛
Six Months	4.60-4.75	9⅝-9¾	4⅜-4½	5¾-5⅞	—	—	9⅝-9¾	10-10⅛
Lombard	5.5	—	—	—	—	—	—	—
Intervention	—	9⅝	—	—	—	—	—	—

LONDON MONEY RATES | Discount Houses Deposit and Bill Rates

Sept. 13 1985	Sterling Certificate of deposit	Interbank	Local Authority deposits	Company Deposits	Market Deposits	Treasury (Buy)	Treasury (Sell)	Eligible Bank (Buy)	Eligible Bank (Sell)	Fine Trade (Buy)
Overnight	—	5-11½	10½-11¼	9-11½	4-10¾	—	—	—	—	—
2 days notice	—	—	11⅛-11¼	—	—	—	—	—	—	—
7 days or	—	—	—	—	—	—	—	—	—	—
7 days notice	—	11⅛-11¼	11¼-11⅜	11½	11⅛-11¼	—	—	—	—	—
One month	11⅛-11¼	11⅛-11¼	11¼-11⅜	11⅝	11¼	11⅛	11	11⅛	11	11⅝
Two months	11⅛-11¼	11⅛-11¼	11¼-11⅜	11⅝	11¼	11⅛	11	11⅛	11	11⅝
Three months	11⅛-11¼	11⅛-11¼	11⅛-11¼	11⅝	11⅜	11	10⅞	11	10⅞	11½
Six months	11⅛-11¼	11⅛-11¼	11¼-11⅜	11⅝	—	—	—	—	—	—
Nine months	10⅞-11⅛	10⅞-11⅛	—	—	—	—	—	—	—	—
One year	10⅞-10⅞	10⅞-11⅛	11½	—	—	—	—	—	—	—

	Local Auth. negotiable bonds	Local Authority Deposits	Finance House Deposits	$ Cert of Deposits	SDR Linked Deposits	ECU Linked Deposits
One month	11¼-12	—	11½	8.05-8.15	7⅛-8	8⅛-8¼
Two months	12⅛-11⅞	—	11½	8.15-8.25	7⅛-8⅛	8⅜-8½
Three months	12⅛-11⅞	—	11½	8.25-8.35	7⅞-8⅛	8⅝-8¾
Six months	11⅞-11⅝	—	11½	8.55-8.65	8-8⅜	8⅝-8¾
Nine months	11⅝-11⅜	—	11⅜	8.85-8.95	[illegible]	—
One year	11⅝-11⅜	—	11⅜	8.95-9.05	8⅛-9⅛	8⅞-9
Two years	—	11½	—	—	—	—
Three years	—	11½	—	—	—	—
Four years	—	11⅛	—	—	—	—
Five years	—	11⅛	—	—	—	—

ECGD Fixed Finance IV. Average rate of interest period August 7 to September 3 (inclusive): 11.574 per cent. Local authority and finance houses seven days' notice, others seven days' fixed. Finance Houses Base Rate (published by the Finance Houses Association): 12 per cent from September 1, 1985. London and Scottish Clearing Bank Rates for lending 11½ per cent. Bank Deposit Rates for sums at seven days' notice 6.25-6.625 per cent (net). Treasury Bills: Average tender rate of discount 11.0911 per cent. Certificates of Tax Deposits (Series 6): Deposits £100,000 and over held under one month 11½ per cent; one-three months 11½ per cent; three-six months 11½ per cent; six-nine months 11½ per cent; nine-12 months 11½ per cent. Under £100,000 10½ per cent from September 12. Deposits held under Series 5 11½ per cent. The rate for all deposits withdrawn for cash 7½ per cent.

FT LONDON INTERBANK FIXING

(11.00 a.m. Sept. 13)

3 months U.S. dollars

bid 8 5/8	offer 8 1/2

6 months U.S. dollars

bid 8 5/8	offer 8 3/4

The fixing rates are the arithmetic means, rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

MONEY RATES

NEW YORK (4 pm)

Prime rate	9½
Broker loan rate	9¼
Fed funds	7¾
Fed funds at intervention	—

Treasury Bills

One month	6.94
Two month	7.19
Three month	7.45
Six month	7.78
One year	8.13

Treasury Bonds

Two year	9.01
Three year	9.40
Four year	9.64
Five year	9.83
Seven year	10.27
10 year	10.40
30 year	10.60

FINANCIAL FUTURES

LONDON

THREE-MONTH EURODOLLAR $1m points of 100%

	Close	High	Low	Prev
Dec	91.25	91.38	91.12	91.21
March	90.98	90.99	90.75	90.84
June	90.63	90.67	90.40	90.47
Sept	90.30	90.25	90.07	90.12
Dec	89.96	—	—	89.78

Est volume 8,848 (3,799)
Previous day's open int 16,640 (16,586)

THREE-MONTH STERLING DEPOSIT £250,000 points of 100%

	Close	High	Low	Prev
Dec	89.04	89.05	88.93	88.98
March	89.36	89.36	89.25	89.18
June	89.41	89.41	89.34	89.23

Est volume 2,096 (1,949)
Previous day's open int 5,942 (5,936)

20-YEAR 12% NOTIONAL GILT £50,000 32nds of 100%

	Close	High	Low	Prev
Sept	111-15	110-29	110-29	110-28
Dec	111-13	111-13	110-27	110-28
March	111-29	—	—	111-10

Est volume 2,560 (1,571)
Previous day's open int 3,463 (3,253)
Basis quote (clean cash price of 13¼% Treasury 2004/08 less equivalent price of near futures contract) −6 to +4 (32nds)

10% NOTIONAL SHORT GILT £100,000 64ths of 100%

	Close	High	Low	Prev
Dec	97-39	97-40	97-28	97-25
March	97-54	—	—	97-40

Est volume 1,231 (776)
Previous day's open int 423 (610)

STERLING £25,000 $ per £

	Close	High	Low	Prev
Dec	132.75	133.42	131.40	130.05
March	132.00	—	—	129.36
June	131.55	131.55	130.55	128.05

Est volume 112 (147)
Previous day's open int 2,695 (2,899)

DEUTSCHE MARKS DM125,000 $ per DM

	Close	High	Low	Prev
Dec	0.3472	0.3494	0.3456	0.3423
March	0.3506	0.3497	0.3487	0.3458

Est volume 87 (71)
Previous day's open int 408 (399)

SWISS FRANCS SwFr 125,000 $ per SwFr

	Close	High	Low	Prev
Dec	0.4207	0.4203	0.4198	0.4148
March	0.4248	0.4241	0.4241	0.4191

Est volume 24 (32)
Previous day's open int 244 (244)

JAPANESE YEN Y12.5m $ per Y100

	Close	High	Low	Prev
Dec	0.4143	0.4147	0.4147	0.4136
March	0.4167	0.4170	0.4170	0.4160

Est volume 47 (42)
Previous day's open int 238 (238)

FT-SE 100 INDEX £25 per full index point

	Close	High	Low	Prev
Sept	130.60	131.30	130.60	131.35
Dec	131.35	132.00	131.50	132.00

Est volume 193 (201)
Previous day's open int 1,702 (1,691)

U.S. TREASURY BONDS 8% $100,000 32nds of 100%

	Close	High	Low	Prev
Sept	76-22	76-04	75-09	75-20
Dec	74-27	75-00	73-30	74-12
March	73-25	—	—	73-10

Est volume 5,690 (1,742)
Previous day's open int 2,193 (2,223)

CHICAGO

U.S. TREASURY BONDS (CBT) 8% $100,000 32nds of 100%

	Close	High	Low	Prev
Sept	76-13	75-26	75-21	75-18
Dec	75-08	75-18	74-21	74-16
March	74-01	74-12	73-28	73-27
June	73-01	73-11	72-12	72-07
Sept	72-04	72-14	71-14	71-08
Dec	71-09	71-15	71-01	70-15
March	70-17	70-23	70-09	69-23
June	69-27	70-01	69-29	69-01

U.S. TREASURY BILLS (IMM) $1m points of 100%

	Close	High	Low	Prev
Sept	92.25	92.33	92.23	92.08
Dec	92.82	92.88	92.45	92.47
March	92.30	92.33	92.12	92.12
June	92.00	92.09	91.80	91.81
Sept	91.71	91.71	91.57	91.50
Dec	91.43	91.43	91.32	91.22

CERT. DEPOSIT (IMM) $1m points of 100%

	Close	High	Low	Prev
Sept	92.06	92.12	91.90	91.90
Dec	91.77	91.89	91.48	91.53
March	91.29	91.39	91.25	91.13
June	91.04	—	—	90.78

THREE-MONTH EURODOLLAR (IMM) $1m points of 100%

	Close	High	Low	Prev
Sept	91.71	91.76	91.53	91.57
Dec	91.43	91.49	91.13	91.19
March	91.07	91.12	90.75	90.81
June	90.72	90.74	89.39	90.44
Sept	90.40	90.41	90.15	90.11

STERLING (IMM) $s per £

	Close	High	Low	Prev
Sept	1.3320	1.3495	1.3260	1.3220
Dec	1.3215	1.3390	1.3150	1.3120
March	1.3140	1.3320	1.3090	1.3050
June	1.3100	1.3300	1.3130	1.3005

GNMA (CBT) 8% $100,000 32nds of 100%

	Close	High	Low	Prev
Sept	76-21	77-02	75-29	75-26
Dec	75-20	75-29	74-28	74-25
March	74-27	—	—	74-00
June	74-04	74-11	74-03	73-09
Sept	73-13	73-13	72-24	72-18

WEEKLY CHANGE IN WORLD INTEREST RATES

	Sept. 13	change		Sept. 13	change
LONDON			**NEW YORK**		
Base rates	11½	Unch'd	Prime rates	9½	Unch'd
7 day interbank	11⅛	−⅛	Federal funds	7⅞	Unch'd
3mth interbank	11½	−⅛	3 Mth. Treasury Bills	7.46	Unch'd
Treasury Bill Tender	11.0911	+0.0431	6 Mth. Treasury Bills	7.79	−0.05
Band 1 Bills	11⅜	Unch'd	3 Mth. C D	8.08	+0.08
Band 2 Bills	11⅛	Unch'd			
Band 3 Bills	11¼	Unch'd	**FRANKFURT**		
Band 4 Bills	11⅛	Unch'd	Lombard	5.5	Unch'd
3 Mth. Treasury Bills	11⅛	+1/32	One Mth. Interbank	4.65	+0.05
1 Mth. Bank Bills	11⅞	−1/16	Three month	4.65	+0.025
3 Mth. Bank Bills	11⅛	+1/32			
TOKYO			**PARIS**		
One month Bills	6.46875	Unch'd	Intervention Rate	9⅝	Unch'd
Three month Bills	6.40625	−0.03125	One Mth. Interbank	9⅞	Unch'd
			Three month	9¾	Unch'd
BRUSSELS			**MILAN**		
One month	8⅞	−⅛	One month	13⅞	+⅛
Three month	9¼	−¼	Three month	14⅛	+⅛
AMSTERDAM			**DUBLIN**		
One month	5⅞	Unch'd	One month	9¾	−⅛
Three month	5⅞	Unch'd	Three month	10	−⅛

London—band 1 bills mature in up to 14 days, band 2 bills 15 to 33 days, band 3 bills 34 to 63 days and band 4 bills 64 to 91 days. Rates quoted represent Bank of England buying or selling rates with the money market. In other centres rates are generally deposit rates in the domestic money market and their respective changes during the week.